LOW SHAREHOLDERS:

McDonald's is the leading foodservice retailer in the global consumer marketplace. Our commitment to 100 percent total customer satisfaction and our merchandising and marketing prowess are essential to global success. McDonald's has one of the strongest brand names in the world; with instant recognition, we gain market acceptance quickly and effectively. A sound global infrastructure also accounts for our success. **McDonald's 1992 Annual Report** will give you a better understanding of our unique infrastructure of restaurants, employees, franchisees, joint-venture partners and suppliers. This firmly established network is virtually impossible to duplicate. With U.S. sales reaching $13.2 billion and sales outside of the U.S. reaching $8.6 billion, McDonald's is a leader in servicing consumers at point of sale.

The momentum of McDonald's global business continued to grow in 1992, reflecting a focus on three key priorities: enhancing the value message, providing exceptional customer care, and

remaining an efficient and quality producer by lowering development and operating costs. For 1993, these will continue to be priorities as we raise our achievements to a higher level and realize further improvements in transactions, sales and profits.

Around the world, value is a key motivator for customers. We are committed to setting standards for value among consumer product companies. In addition to further integrating value into our overall operating practice, we will continue to deliver profitable Extra Value Meals for breakfast, lunch and dinner, and to promote value messages through restaurant merchandising.

Intricately linked to value is customer care, which continues to differentiate McDonald's from the competition. Our goal is to achieve 100 percent total customer satisfaction. We are implementing several initiatives to support this priority: an enhanced production system which delivers hotter, better-tasting food, faster and with greater accuracy; a training process which enables crew to think like customers and empowers them to impress customers; and measurement tools which give managers and crew the direct feedback needed to exceed customers' expectations. Customer care means convenient locations, clean restaurants and quality products. These worldwide standards, coupled with local strategies, allow McDonald's to outdistance the competition.

To further improve profits, we expect to achieve ongoing reductions in development and operating costs. We are structurally lowering costs, thereby improving returns to shareholders, by taking advantage of the economies of scale and efficiencies inherent in our global sourcing system.

Reduced development costs and lower break-even sales volumes will support accelerating expansion. Over the next several years, we will add between 700 and 900 restaurants annually with about two-thirds of these openings outside of the U.S. With a compound annual growth rate in operating income of 23 percent over the past five years, the international marketplace has proven to be an excellent reinvestment opportunity. Thus, we will employ the significant cash flow generated by our U.S. business to help fund growth outside of the U.S.

Our employees, franchisees, joint-venture partners and suppliers throughout the world are working hard to achieve 100 percent total customer satisfaction and to improve McDonald's market share and competitive position. As we survey the global marketplace, we are excited by the opportunities to build shareholder value by capitalizing on our core capabilities and global presence.

Michael R. Quinlan
Chairman and Chief Executive Officer, Shareholder

Edward H. Rensi
President and Chief Executive Officer—U.S.A., Shareholder

James R. Cantalupo
President and Chief Executive Officer—International, Shareholder

Jack M. Greenberg
Vice Chairman and Chief Financial Officer, Shareholder

March 15, 1993

A friend and business partner remembers

The McDonald's System lost two pioneers with the recent deaths of Gerry Newman, Board member, Senior Executive Vice President and Chief Accounting Officer, and Board member David Wallerstein. Below, McDonald's Senior Chairman Fred Turner shares a few personal thoughts about their contributions to McDonald's.

Gerry Newman

David Wallerstein

Gerry *was genuine, intuitive, generous, loyal, dedicated…and tough-minded when necessary. He was a major contributor to the building of McDonald's Corporation. He has given McDonald's a legacy of care and consideration for our licensees, suppliers and employees… a legacy of fair-mindedness. Gerry was a man who made a difference.*

Dave's *view of the business was from the front counter of the store. Customer perspective was what he brought to the boardroom. He convinced the Company to put in large fries, and he pushed building breakfast. He believed in flexibility, and he believed in leveraging your strengths. Dave was the senior director in every respect.*

11-YEAR SUMMARY

(Dollars rounded to millions, except per common share data and average restaurant sales)	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982
Systemwide sales	**$21,885**	19,928	18,759	17,333	16,064	14,330	12,432	11,001	10,007	8,687	7,809
U.S.	**$13,243**	12,519	12,252	12,012	11,380	10,576	9,534	8,843	8,071	7,069	6,362
Outside of the U.S.	**$ 8,642**	7,409	6,507	5,321	4,684	3,754	2,898	2,158	1,936	1,618	1,447
Systemwide sales by type											
Operated by franchisees	**$14,474**	12,959	12,017	11,219	10,424	9,452	8,422	7,612	6,914	5,929	5,239
Operated by the Company	**$ 5,103**	4,908	5,019	4,601	4,196	3,667	3,106	2,770	2,538	2,297	2,095
Operated by affiliates	**$ 2,308**	2,061	1,723	1,513	1,444	1,211	904	619	555	461	475
Average sales by restaurants open at least one year, in thousands	**$ 1,733**	1,658	1,649	1,621	1,596	1,502	1,369	1,296	1,264	1,169	1,132
Revenues from franchised restaurants	**$ 2,031**	1,787	1,621	1,465	1,325	1,186	1,037	924	828	704	620
Total revenues	**$ 7,133**	6,695	6,640	6,066	5,521	4,853	4,143	3,694	3,366	3,001	2,715
Operating income	**$ 1,862**	1,679	1,596	1,438	1,288	1,160	983	905	812	713	613
Income before provision for income taxes	**$ 1,448**	1,299	1,246	1,157	1,046	959	848	782	707	628	546
Net income	**$ 959**	860	802	727	646	549*	480	433	389	343	301
Cash provided by operations	**$ 1,426**	1,423	1,301	1,246	1,177	1,051	852	813	701	618	505
Financial position at year-end											
Net property and equipment	**$ 9,597**	9,559	9,047	7,758	6,800	5,820	4,878	4,164	3,521	3,183	2,765
Total assets	**$11,681**	11,349	10,668	9,175	8,159	6,982	5,969	5,043	4,230	3,727	3,263
Long-term debt	**$ 3,176**	4,267	4,429	3,902	3,111	2,685	2,131	1,638	1,268	1,171	1,056
Total shareholders' equity	**$ 5,892**	4,835	4,182	3,550	3,413	2,917	2,506	2,245	2,009	1,755	1,529
Per common share											
Net income	**$ 2.60**	2.35	2.20	1.95	1.71	1.45*	1.24	1.11	.97	.85	.74
Dividends declared	**$ .39**	.36	.33	.30	.27	.24	.21	.20	.17	.14	.12
Total shareholders' equity at year-end	**$ 14.77**	13.48	11.65	9.81	9.09	7.72	6.45	5.67	4.94	4.38	3.78
Market price at year-end	**$ 48¾**	38	29⅛	34½	24⅛	22	20¼	18	11½	10½	9
Systemwide restaurants at year-end	**13,093**	12,418	11,803	11,162	10,513	9,911	9,410	8,901	8,304	7,778	7,259
Operated by franchisees	**9,237**	8,735	8,131	7,573	7,110	6,760	6,406	6,150	5,724	5,371	4,911
Operated by the Company	**2,551**	2,547	2,643	2,691	2,600	2,399	2,301	2,165	2,053	1,949	1,846
Operated by affiliates	**1,305**	1,136	1,029	898	803	752	703	586	527	458	502
U.S.	**8,959**	8,764	8,576	8,270	7,907	7,567	7,272	6,972	6,595	6,251	5,918
Outside of the U.S.	**4,134**	3,654	3,227	2,892	2,606	2,344	2,138	1,929	1,709	1,527	1,341
Number of countries at year-end	**65**	59	53	51	50	47	46	42	36	32	31

**Before the cumulative prior years' benefit from the change in accounting for income taxes.*

This Investor Review is designed to provide investors with material and highlights on a variety of topics. Accordingly, this section offers a briefing on your investment.

Global strategies to build shareholder value

Foodservice is a competitive industry with highly attractive, long-term potential. No single company has the brand presence or recognition of McDonald's, and no single company is better positioned than McDonald's to capitalize on this global potential. We believe it is in the best interest of the Company and shareholders to run the business with a long-term perspective. Accordingly, our growth strategies are designed to maintain our leadership position in the global consumer industry in general, and in the global foodservice industry in particular:

Adding McDonald's-branded outlets.
Building sales and transactions.
Enhancing profits and returns throughout our operating structure.

We will add McDonald's-branded outlets to bring products to where people live, work, shop and play by tapping into our global infrastructure of people, technical and capital resources.

We will build sales and transactions by providing exceptional customer care, serving a limited menu of high-quality products consistent with customer tastes, improving operating systems, and effectively marketing McDonald's brand.

We will enhance profits and returns throughout our operating structure by lowering development, operating and administrative costs; by achieving efficiencies through economies of scale; and by utilizing our global supply infrastructure.

In addition to these strategies designed to grow the business, we have identified others to further enhance shareholder value:

Managing our capital base and improving our cash flow.
Aligning the interests of the employees, franchisees, joint-venture partners and suppliers of the McDonald's System with those of other shareholders through share ownership, to encourage outstanding performance.

We believe these five strategies will enhance shareholder value and deliver 100 percent total customer satisfaction.

Key strengths

The McDonald's System is the largest foodservice organization in the world. The Company, restaurant managers, franchisees and joint-venture partners operate more than 13,000 restaurants in 65 countries, each offering a limited menu of high-quality food, which can be part of a well-balanced meal plan. McDonald's has pioneered food quality specifications, equipment technology, marketing and training programs, and operational and supply systems that are considered the standards of the industry throughout the world.

Many people debate which factors have contributed most to McDonald's success. We believe that success has been achieved by an intense focus on satisfying customers coupled with utilizing our key strengths to meet their needs. To help investors understand our business better, a discussion of several key strengths follows. These key strengths—and others like them—are instrumental in building shareholder value.

FINANCIAL CAPABILITIES

Many people naturally think of McDonald's as their neighborhood restaurant. But the Company also enjoys a highly respected financial record. The period ended December 31, 1992, was McDonald's 111th consecutive quarter of record Systemwide sales, net income and net income per common share. This financial strength has allowed us to capitalize on expansion opportunities worldwide which, in turn, build sales, income and cash flow and, ultimately, returns for shareholders.

In the following table, our ten-year compound annual growth rates of key performance measures reflect our ability to seize the global marketplace:

Systemwide sales	11%	Net income	12%
U.S.	8	Net income per common share	13
Outside of the U.S.	20	Cash provided by operations	11
Total revenues	10	Total assets	14
Operating income	12	Total shareholders' equity	14
U.S.	7	Total return to investors on common stock	20
Outside of the U.S.	25		

In today's competitive global environment, our strong financial position provides us with flexibility. The Company generally finances long-term assets with long-term debt in the currencies in which assets are denominated, while remaining flexible to take advantage of changing foreign currencies and interest rates. This practice minimizes borrowing costs and the impact of changing foreign currencies. Historically, the Company has borrowed primarily to support expansion and share repurchase. Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982; Duff & Phelps began rating the debt in 1990, and currently rates it AA+. We believe that a strong credit rating is essential to support future growth.

In 1992, McDonald's generated $21.9 billion in Systemwide sales. The Company recorded $1.9 billion in operating income...$1.4 billion in cash provided by operations...nearly $1.0 billion in net income...all on an asset base of $11.7 billion.

RESTAURANT OPERATIONS

The sole focus of our restaurants is 100 percent total customer satisfaction. Our challenge is to meet and exceed customers' expectations for quality food, exceptional service, cleanliness and value.

Training

Satisfying customers starts with proper training. This begins at the restaurant with one-on-one instruction and videotapes before a crewperson cooks the first french fry. Aspiring restaurant managers progress through a development program that includes self study, a series of classes in basic and intermediate operations, management and equipment. Upon completion, assistant managers are eligible to attend the two-week advanced operations and management class at one of the four Hamburger University (H.U.) campuses. Instructors at H.U.'s campuses in Illinois, Germany, England and Japan annually train over 3,000 students in 20 languages. The curriculum at H.U. concentrates on skills and practices essential to delivering customer satisfaction and running successful restaurant businesses.

Customer satisfaction

Consistent with our objective of providing exceptional customer care, we will continue to roll out service enhancement, a program which trains crew to think like customers and to take action to impress them. Restaurants that have completed this process have experienced sales increases and positive changes in attitude among crew and management alike.

Customer feedback is essential to continuous improvement in service. Using tools such as customer comment cards, surveys and focus groups, we are measuring customer satisfaction on an individual restaurant basis.

Food quality and nutrition

We are committed to serving quality products. Both raw- and cooked-quality specifications are established and strictly enforced for each product. Quality assurance labs in the U.S., Europe and the Pacific work to ensure that McDonald's high standards are consistently met. Our quality assurance process involves not only ongoing testing, but also on-site inspections of our suppliers' facilities. Further, food preparation, cooking, and equipment maintenance procedures are closely monitored. This combination of stringent product standards, strictly enforced restaurant operating procedures, and close working relationships with suppliers assures that McDonald's food is safe and of the highest quality.

To better serve our customers, we accelerated the implementation of an enhanced production system that improves our ability to serve hot food, fast. Over 80% of U.S. restaurants are using this system for breakfast, and over 50% are using a more extensive system for lunch and dinner as well.

Since 1973, McDonald's has made nutrition information on products available to customers so they can make informed decisions about how our food can be part of a healthy, well-balanced diet. We display posters with complete nutrition and ingredient information in U.S. restaurants, and a brochure titled "McDonald's Nutrition and You" is available upon request.

We also educate healthcare professionals about our menu through advertising, convention exhibits and patient education material. These efforts led to partnerships with leading nutrition groups. With the Society for Nutrition Education, we launched a series of Saturday morning public service announcements entitled "What's On Your Plate." Hosted by the clay-animation figure Willie Munchright, these announcements help kids develop healthy eating habits in a fun way.

McDonald's and the American Dietetic Association have also joined forces to educate children and parents through our Food FUNdamentals Happy Meal, which features toy food characters representing major food groups and nutrition education pamphlets. Complementing both efforts, a teaching kit was developed for nutritionists and educators to use with schoolchildren.

FRANCHISING

McDonald's franchising program assures consistency and quality. Two-thirds of our restaurants are franchised to 3,750 owner/operators around the world. While franchising is considered essential to our future growth, we remain highly selective in granting franchises. Only highly motivated, talented entrepreneurs with integrity and extensive business experience are recruited and trained to become active, on-premise owners of McDonald's restaurant businesses. These individuals share a personal commitment to customer care. Our practice is not to franchise to corporations, partnerships or passive investors.

Under the conventional franchise arrangement, franchisees supply capital—initially, by purchasing equipment, signs, seating, and decor, and over the long term, by reinvesting in their businesses. The Company shares the investment by owning or leasing the land and building; franchisees then contribute to McDonald's revenues through payment of rent and service fees based upon a percent of sales, with minimum payments. The conventional franchise arrangement generally lasts for 20 years and, in the U.S., requires an initial investment ranging from approximately \$430,000 to \$560,000, 60% of which may be financed.

Generally, franchising practices are consistent throughout the world. The Company generally does not supply food, paper or equipment to restaurants. Rather, we approve suppliers from whom these items may be purchased.

In 1992, about 350 new franchisees throughout the world joined the McDonald's System. Some are second- and third-generation operators who grew up in families with a Golden Arch culture.

Our franchising program benefits individual franchisees, the Company and shareholders. Franchisees gain an opportunity to exercise entrepreneurial talent and benefit from McDonald's world-renowned trademarks, extensive support network and marketing expertise. Many successful franchisees operate more than one restaurant. Over their lifetimes, most accumulate substantial assets. As a group, our franchisees are financially strong.

In line with our commitment to maintain close, positive relations with franchisees, the Company became a founding member of the National Franchise Mediation Program. Designed to further strengthen relationships between franchisees and franchisors, the program uses a process to resolve differences as quickly, amicably and economically as possible. We believe that satisfied, successful franchisees are instrumental in maximizing profits.

McDonald's single focus is on achieving 100 percent total customer satisfaction... every day... in every restaurant... for every customer.

RESTAURANT DEVELOPMENT

Expansion continues to be important to McDonald's growth. Many customers choose a quick-service restaurant based on convenience. Accordingly, we identify and develop sites that offer convenience to customers and afford us long-term sales and profit potential. To assess potential, we analyze traffic and walking patterns, census data, school enrollments and other important data. Our experience and access to advanced technology give us a competitive edge in evaluating this information and obtaining premier, profitable locations.

In the U.S., locations such as food courts and tollways supplement our traditional suburban and urban restaurant openings. In many markets outside of the U.S., we initially established presence in center cities. Now, increasing global brand awareness enables us to open more freestanding buildings with drive-thrus outside of center cities.

In order to control occupancy costs and rights, McDonald's made an early strategic decision to own restaurant sites and buildings. Where ownership is not practical, we secure long-term leases.

Over the past several years, we have improved new restaurant profitability for both the Company and our franchisees by significantly reducing average develop-

ment costs. Introduced in the U.S. in 1991, our Series 2000 building has been crucial to this effort. This efficient building—which is half the size of a traditional restaurant and requires a smaller parcel of land—can accommodate nearly the same volume and has enabled us to reduce construction costs by about 30% and site costs by about 20%. Outside of the U.S., we have also made dramatic progress in reducing costs as we standardize buildings and consolidate purchases of equipment and materials. For example, we have three cost-efficient building designs approved for use in Europe. We expect further cost reductions as we open more restaurants utilizing construction and design efficiencies and leveraging our global sourcing system.

GLOBAL BRAND MARKETING

The McDonald's brand is a global symbol of quality, service, cleanliness and value. Our aggressive marketing and promotional activities are skillfully designed to nurture this brand image and differentiate McDonald's from the competition by focusing on value and customer satisfaction.

Marketing programs

Our value program lowered prices of certain menu items and offered Extra Value Meals. During 1992, we implemented the largest outdoor advertising campaign ever undertaken by a single brand; nationwide, price-point advertising of Extra Value Meals; and more efficient techniques to lower media costs.

Although customized for local markets and competitive environments, our marketing priorities outside of the U.S. are essentially the same: value and customer satisfaction are the messages communicated on television, radio, print ads, billboards and restaurant signage. From France to Thailand to Brazil, the goal is to create preference for the brand and to increase the frequency of customer visits.

Systemwide expenditures for advertising and promotion totaled approximately $1.3 billion, or 6.2% of sales, in 1992. Certain marketing decisions are decentralized to promote local presence. Funding for promotions is handled at the local restaurant level; funding for regional and national efforts is handled through advertising cooperatives. Franchised, Company-operated and affiliated restaurants throughout the world make voluntary contributions so that cooperatives may purchase media in a cost-effective manner. Production costs for advertising messages are generally borne by the Company.

Competition

McDonald's restaurants compete with international, national and regional retailers. We compete on the basis of price and service—two key components of value—and by offering quality food products with speed and convenience. We view our competition in the broadest perspective—quick-service eating establishments, mom and pop's, take-outs, pizza parlors, coffee shops, street vendors, convenience food stores, delis, supermarket freezers, and microwave ovens. In fact, we view any business serving or selling food as a competitor.

In the U.S., about 371,000 restaurants generate nearly $200 billion in annual sales. McDonald's accounts for about 2% of those restaurants and nearly 7% of those sales. That leaves 93%, or nearly $187 billion, to target for market share growth. U.S. eating and drinking place sales grew only 2.7% in 1992, compared to McDonald's U.S. sales growth of 5.8%. Outside of the U.S., our business remains strong and, in virtually all markets, our share is growing.

SOCIAL RESPONSIBILITY

We believe that being a good corporate citizen means treating people with fairness and integrity, sharing our success with the communities in which we do business, and being a leader on issues that affect customers. This philosophy is shared by many different people and implemented in a variety of ways throughout McDonald's; a few are discussed here.

Education

As one of the nation's largest employers of young people, McDonald's believes that education is the number one priority for student employees. We are committed to ensuring that the discipline and good work habits acquired on the job are balanced with, and a part of, the total learning process.

McDonald's works with parents, educators and students to support educational programs that encourage and recognize academic performance. Franchisees and restaurant managers work with their community

schools to address critical issues such as literacy, dropout rates and substance abuse prevention through mentoring, incentive and tutorial programs. And we also build relationships with educators by participating in their professional organizations.

We reach primary age schoolchildren with programs such as "Healthy Growing Up," a nutrition and fitness program developed by nationally recognized experts; and "Together is Better... Let's Read!," a joint effort with the American Library Association to encourage family reading.

Diversity development

McDonald's believes that by embracing the benefits a diverse workforce can offer, we will create greater resources and opportunities to manage the ever-changing marketplace. Thus, we take extra steps to attract and retain capable minorities, women, disabled and older workers, and to develop their potential without regard to race, sex, religion, ethnic or cultural background.

McDonald's is proud of the career opportunities we offer our employees. Our statement of employment principles describes our responsibility to both present and prospective employees to offer wage rates that are fair, equitable and nondiscriminatory in every location; to ensure working conditions that teach job skills and reward both individual accomplishments and teamwork; and to offer career opportunities.

McDonald's is a leader in voluntary affirmative action. Presently, 19 minority men and women are officers of the Company. In Company-operated restaurants, approximately 70% of restaurant management is female and minority, and 50% of middle management staff is female and minority. Currently, one female and one minority male serve on our Board of Directors.

McDonald's continues to recruit, train and develop physically and mentally challenged individuals and people over age 55 to become crew through our McJobs and McMasters programs. We gain loyal, dependable and highly motivated employees with professional attitudes and skills; in turn, they gain confidence and self-esteem.

This commitment to diversity extends beyond employees. McDonald's franchisees represent the largest and most successful group of minority entrepreneurs in the U.S., and 64% of those presently in training are minorities and women. We also have programs targeted toward developing relationships with minority- and female-owned businesses to increase the amount of goods and services purchased through them. In 1992, we purchased over $400 million in goods and services from minority and female suppliers in the U.S.

Ronald McDonald Children's Charities (RMCC)

Our philosophy of giving something back to the communities in which we do business is evidenced by support of RMCC. Since its founding in 1984 in memory of McDonald's Corporation's founder Ray A. Kroc, its mission is to lift kids to a better tomorrow. RMCC makes grants for programs that directly benefit children in the areas of healthcare and medical research, civic and social sciences, and arts and education. At the national level, over 1,700 grants totaling $61 million have been made; also, local RMCC chapters have made additional grants.

Ronald McDonald Houses

As the cornerstone of RMCC, the Ronald McDonald House program serves more than 2,300 families every night. At year-end 1992, there were 150 houses in nine countries, each providing a home-away-from-home for families of seriously ill children receiving treatment at nearby hospitals.

Environment

McDonald's believes we have a responsibility to protect the environment for future generations. Accordingly, we have an ongoing commitment to manage solid waste, conserve and protect natural resources, and promote sound environmental efforts. We have implemented a comprehensive waste reduction plan that completed more than half of 80 initiatives to reduce, reuse, recycle and compost. Since the inception of the McRecycle USA program three years ago, we have purchased over one-half billion dollars of recycled products. In addition, McDonald's is a founding member of the Buy Recycled Business Alliance, a group dedicated to developing and expanding the market for recycled products.

McDonald's environmental focus is global and is reflected in numerous initiatives. Our operations in Germany eliminated 200 tons of polystyrene packaging. And in Holland, we implemented a process to sort 100% of the restaurants' waste stream for recycling or composting.

We continue to be recognized as a leader in the environmental field. For the second year in a row, McDonald's was ranked number one by consumers and number two by experts in an independent survey of corporate environmental performance, conducted by Cambridge Reports/Research International. The Society for the Advancement of Management awarded

McDonald's with the first ever Corporate Social Responsibility Award for the McRecycle USA program.

Our commitment to the environment also extends to the world's rain forests. McDonald's policy is to use locally produced and processed beef, if available, in every country where we do business. In all cases, McDonald's does not, has not, and will not permit the destruction of tropical rain forests for our beef supply. This policy is strictly enforced and closely monitored.

SYSTEM SHARE OWNERSHIP

Over the years, the hard work and dedication of our restaurant managers and crew, employees, franchisees, joint-venture partners and suppliers, and their employees have contributed to McDonald's success.

Fostering an identity of interest among members of the McDonald's System and you, our fellow shareholders, has always been an important management priority. We believe that share ownership assists in recruiting and retaining employees, as well as in encouraging performance that serves the long-term interests of shareholders. To that end, we link performance with stock-based incentives offered to a broad group of employees.

Every year, the McDonald's System is surveyed regarding share ownership. The results of the 1993 survey indicate that approximately 13.6% of McDonald's common stock is directly or beneficially owned by, or credited through employee plans to, members of the McDonald's System. This ownership represents the seventh consecutive increase since the first survey in 1986. Such significant share ownership reflects the confidence the System shareholders have in our collective future.

McDonald's stock has delivered compound annual total returns of 20% to investors over the past 10 years.

STOCK PERFORMANCE

The strengths discussed here have contributed to McDonald's success and are instrumental in building shareholder value. One measure of shareholder value is stock performance, and McDonald's stock has performed well, as illustrated on page 10.

Trading symbol/stock exchanges

McDonald's stock trades under the symbol MCD and is listed on the following stock exchanges: New York, Midwest, Pacific, Toronto, Frankfurt, Munich, Paris, Tokyo, Zurich, Geneva and Basel. McDonald's is one of the 30 companies which comprise the Dow Jones Industrial Average. In addition, McDonald's is a component of many different indices used to gauge performance on a worldwide basis, such as the Standard & Poor's 500.

The common stock price range has been as follows:

Quarter	**1992**	1991	1990
First	**$45 -38⅜**	$35⅛-26⅛	$34⅞-30⅛
Second	**47½-39⅝**	36 -31¼	36¾-30
Third	**47¾-41⅛**	35⅝-30	38½-25
Fourth	**50⅝-40⅞**	39⅞-32⅞	30½-25⅛
Year	**$50⅝-38⅜**	$39⅞-26⅛	$38½-25

Our investor base—shareholders of record and beneficial owners—continues to grow and was estimated as follows:

At year-end	**1992**	1991	1990	1989	1988
Shareholders	**378,000**	372,000	362,000	248,000	168,000

Dividend philosophy

Given McDonald's high returns on equity and assets, management believes it is prudent to reinvest a significant portion of earnings back into the business. Accordingly, the common stock yield is relatively modest. However, we do believe in increasing the per share amount and have done so 18 times since the first dividend was paid in 1976. McDonald's has paid 68 consecutive quarterly dividends on common stock. Additional dividend increases will be considered after reviewing returns to shareholders, profitability expectations and financing needs.

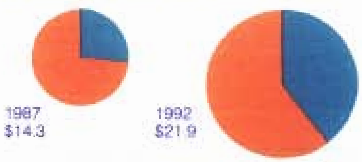
Dividend reinvestment and stock purchase plan

McDonald's offers shareholders of record a convenient method of acquiring additional shares of common stock through reinvestment of dividends and voluntary cash contributions. All fees associated with stock purchases made under the Plan are paid by the Company. As of March 1, 1993, nearly 60% of shareholders of record were participants.

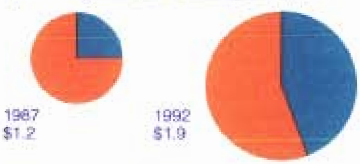
Geographic comparisons

U.S. International

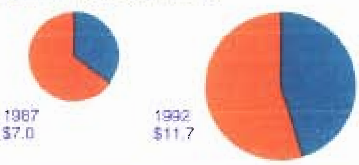
Systemwide sales in billions of dollars



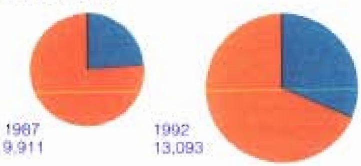
Operating income in billions of dollars



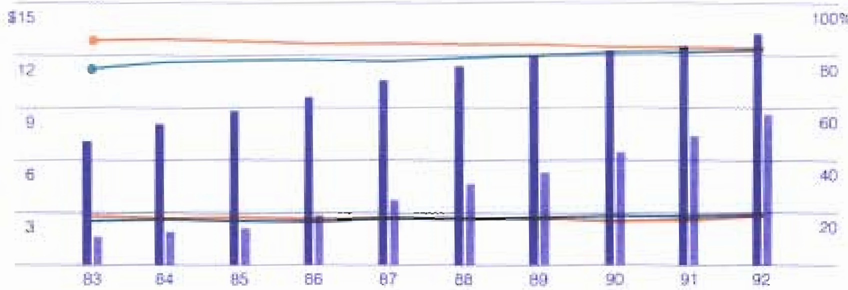
Assets in billions of dollars



Restaurants



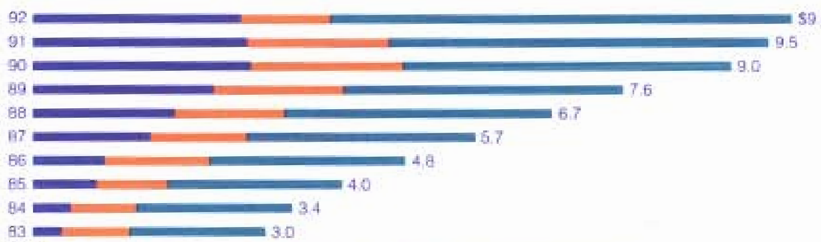
Operating results



U.S. International
Sales in billions of dollars
Franchised margins as a percent of Revenues from franchised restaurants
Company-operated margins as a percent of Sales by Company-operated restaurants

Capitalization

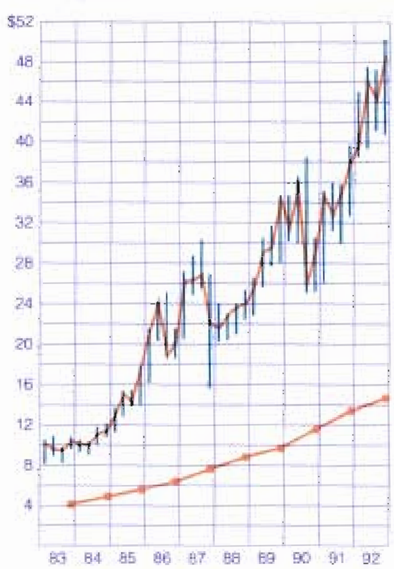
in billions of dollars



Foreign-denominated debt U.S. Dollar debt Shareholders' equity

Market price per common share

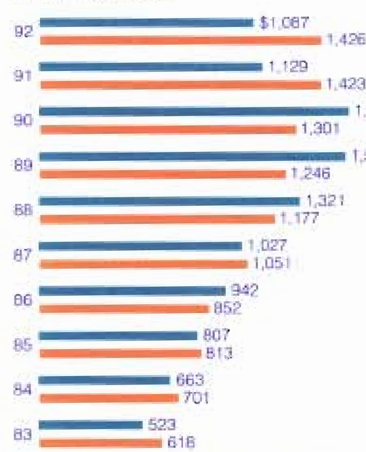
in dollars



Quarterly stock price range
Price at quarter-end
Shareholders' equity per common share at year-end

Capital expenditures versus cash flow

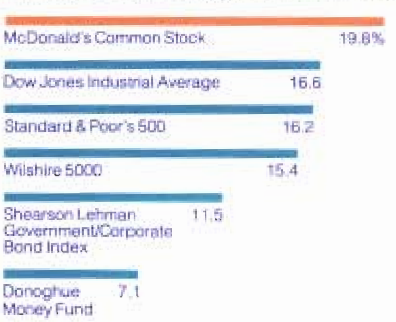
in millions of dollars



Capital expenditures on a cash basis
Cash provided by operations

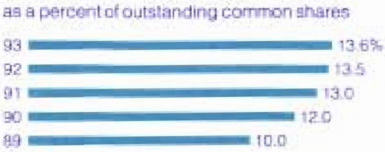
Compound annual total return to investors

for the ten-year period ended December 31, 1992



McDonald's System share ownership

as a percent of outstanding common shares



Systemwide restaurants at year-end

	1992	1987
United States	8,959	7,567
Australia	338	204
Brunei	1	0
China	3	0
Guam	4	3
Hong Kong	62	36
Indonesia	5	0
Japan	956	604
Macau	3	1
Malaysia	31	15
New Zealand	61	28
Philippines	47	13
Singapore	44	23
South Korea	15	0
Taiwan	67	22
Thailand	16	2
Total Pacific	1,653	951
Andorra	1	1
Austria	35	20
Belgium	16	9
Czech Republic	3	0
Denmark	21	7
England	429	255
Finland	14	4
France	239	61
Germany	438	262
Greece	2	0
Hungary	10	0
Ireland	16	8
Italy	16	4
Luxembourg	2	2
Monaco	1	0
Morocco	1	0
Netherlands	83	43
Northern Ireland	4	0
Norway	10	2
Poland	3	0
Portugal	4	0
Russia	1	0
Scotland	24	1
Spain	50	25
Sweden	59	29
Switzerland	32	14
Turkey	14	2
Wales	15	6
Yugoslavia	6	0
Total Europe/Africa	1,549	755
Canada	658	539
Argentina	18	3
Aruba	1	1
Bahamas	4	3
Bermuda (U.S. Navy Base)	1	1
Brazil	107	37
Chile	3	0
Costa Rica	8	4
Cuba (U.S. Navy Base)	1	1
El Salvador	3	2
Guadeloupe	1	0
Guatemala	6	3
Martinique	1	0
Mexico	56	5
Netherlands Antilles	3	3
Panama	10	8
Puerto Rico	40	22
Uruguay	2	0
Venezuela	6	3
Virgin Islands	3	3
Total Latin America	274	99
Outside of the U.S.	4,134	2,344
Systemwide restaurants	13,093	9,911
Countries	65	47

CONSOLIDATED OPERATING RESULTS

In 1992, McDonald's recorded several important achievements. U.S. sales and transactions increased for the year, and the international business generated sales and operating income increases of 17% and 21%, respectively.

Increases (decreases) in operating results over prior year

(Dollars rounded to millions, except per common share data)	1992 Amount	1992 %	1991 Amount	1991 %
Systemwide sales	$1,957	10	$1,169	6
Revenues				
Sales by Company-operated restaurants	$ 194	4	$ (111)	(2)
Revenues from franchised restaurants	244	14	166	10
Total revenues	438	7	55	1
Operating costs and expenses				
Company-operated restaurants	97	2	(107)	(3)
Franchised restaurants	42	14	27	10
General, administrative and selling expenses	66	8	71	10
Other operating (income) expense—net	50	(44)	(19)	19
Total operating costs and expenses	255	5	(28)	(1)
Operating income	183	11	83	5
Interest expense	(18)	(5)	10	3
Nonoperating income (expense)—net	(52)	NM	(20)	(61)
Income before provision for income taxes	149	11	53	4
Provision for income taxes	50	11	(4)	(1)
Net income	$ 99	12	$ 57	7
Net income per common share	$ .25	11	$ .15	7

NM—Not Meaningful

Systemwide sales and restaurants

Systemwide sales are comprised of sales by restaurants operated by the Company, franchisees and affiliates operating under joint-venture agreements between McDonald's and local businesspeople. The 1992 increase in Systemwide sales was due to new restaurant expansion, higher sales at existing restaurants and stronger foreign currencies. The 1991 increase was due to new restaurant expansion and higher sales at existing restaurants outside of the U.S. Sales by Company-operated restaurants grew at a slower rate than Systemwide sales in 1992 and decreased in 1991, reflecting the franchising of certain Company-operated restaurant businesses.

Average sales by restaurants open at least one year were $1,733,000 in 1992, which was $75,000 greater than in 1991. U.S. average sales improved due to the value program and various promotional efforts; average sales outside of the U.S. improved because of market presence, promotional and marketing programs and stronger foreign currencies.

Expansion has continued at an accelerated pace as 675 restaurants were added in 1992. Restaurants opened during the year contributed $478 million to Systemwide sales in 1992, $460 million in 1991 and $499 million in 1990.

Total revenues

Total revenues consist of Sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates, based upon a percent of sales with specified minimum payments. The minimum franchise fee generally has been 12% of sales for new U.S. franchise arrangements since 1987. Higher fees are charged for sites that require a higher investment on the part of the Company. Fees paid by franchisees outside of the U.S. vary according to local business conditions. These fees, together with occupancy and operating rights, are stipulated in franchise arrangements which generally have 20-year terms.

The rates of increases in Total revenues for 1992 and 1991 were less than the rates of increases in Systemwide sales because of the franchising of certain Company-operated restaurant businesses primarily in the U.S. and Canada. Weaker European currencies for 1991 compared with 1990 also contributed to the change in 1991.

Revenues grow as restaurants are added and as existing restaurants build sales. Menu price adjustments affect revenues as well as sales; however, different pricing throughout the System, new products, promotions, and product mix variations make it impractical to quantify the impact for the System.

Growth rates for Sales by Company-operated restaurants and Revenues from franchised restaurants varied because of expansion and changes in ownership. Sales by Company-operated restaurants were impacted more by changing foreign currencies than were Revenues from franchised restaurants. About 54% of Sales by Company-operated restaurants were outside of the U.S. in 1992, compared with 31% of Revenues from franchised restaurants.

Restaurant margins

Company-operated restaurant margins improved to 19.1% of sales in 1992, from 17.9% in 1991 and 17.6% in 1990. All costs declined as a percent of sales in 1992. Declines in food and packaging, payroll and employee benefits, and other operating costs as a percent of sales more than offset increases in occupancy costs in 1991.

Franchised restaurant margins were 82.8% of applicable revenues for 1992, 1991 and 1990. Franchised margins include revenues and expenses associated with restaurants operating under business facilities lease arrangements. Under these arrangements, the Company leases the businesses—including the equipment—to franchisees who have options to purchase the businesses. While higher fees are charged under these arrangements, margins are generally lower because of equipment depreciation. When the purchase options are exercised, the resulting gains compensate the Company for lower margins prior to exercise and are included in Other operating (income) expense—net. At year-end 1992, 583 restaurants were operating under such arrangements, compared with 584 and 553 at year-end 1991 and 1990, respectively.

General, administrative and selling expenses

The 1992 increase was due to higher employee costs associated with expansion, partially offset by a reduction in U.S. marketing costs associated with the value program. The 1991 increase was due to higher advertising costs on a worldwide basis, and higher employee costs outside of the U.S. resulting from expansion. These expenses—as a percent of Systemwide sales—have remained relatively constant over the past five years and were 3.9% in 1992 and 4.0% in 1991.

Other operating (income) expense—net

Other operating (income) expense—net is comprised of gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, and net gains or losses from property dispositions. Major factors contributing to the 1992 decrease included lower affiliate results due to 1991 gains from property dispositions and lower operating results in Japan, lower gains on sales of restaurant businesses, and greater losses on property dispositions; partially offset by a favorable settlement of a sales tax case in Brazil in 1992. The 1991 increase reflected better affiliate results due to gains from property dispositions and strong results in Japan.

Gains on sales of restaurant businesses include gains from exercises of purchase options by franchisees operating under business facilities lease arrangements and from sales of Company-operated restaurants. As a franchisor, McDonald's purchases and sells businesses in transactions with franchisees and affiliates in an ongoing effort to achieve the optimal ownership mix in each market. These transactions and the resulting gains are integral to franchising.

Equity in earnings of unconsolidated affiliates is reported after interest expense and income taxes, except for U.S. partnerships which are reported before income taxes. The Company actively participates in, but does not control, these businesses.

Net gains or losses from property dispositions result from disposal of excess properties that occur because of closings, including certain relocated restaurants, and other property transactions.

Operating income

The 1992 increase reflected better results from franchised restaurants and stronger Company-operated restaurant margins, partially offset by higher General, administrative and selling expenses, and lower income from other operating transactions. Changing foreign currencies helped results for the year. The 1991 increase reflected better results from franchised restaurants and affiliates, offset by weaker European currencies.

Interest expense

The 1992 decrease was primarily due to lower average debt balances and lower average interest rates. The 1991 increase was due to lower capitalized interest, as interest incurred was flat, reflecting the benefits of slightly lower average interest rates and weaker European currencies. The trends have been positively impacted by the fact that Cash provided by operations exceeded capital expenditures in 1992 and 1991.

Nonoperating income (expense)—net

This category includes interest income, gains and losses related to investments and financings, as well as miscellaneous income and expense. The 1992 net expense included $28.8 million in charges related to various early redemptions of high-coupon, U.S. Dollar debt. The 1991 decrease reflected lower gains from debt extinguishments.

Provision for income taxes

The effective tax rate was 33.8% for 1992, the same as the 1991 annual rate. While the overall tax rate remained the same, the deferred provision decreased significantly from the prior year. This decrease was primarily due to current and prior year items, including a benefit for a nonrecurring payment in 1991 and the realization of U.S. federal tax benefits related to certain operations outside of the U.S. in 1992.

Consolidated net deferred tax liabilities were $745 million at year-end 1992. Included in this amount were net tax assets of $148 million, of which $111 million represented benefits to be realized in future U.S. tax returns. Substantially all of the $37 million of tax assets outside of the U.S. arose from profitable markets. A portion of deferred income taxes will need to be revalued if U.S. corporate tax rates increase.

U.S. OPERATIONS

U.S. sales have increased at a ten-year compound annual rate of 8%, while operating income has grown at 7%.

Sales

The 1992 increase was due to higher sales and transaction counts at existing restaurants and expansion. Sales and transaction counts were positively affected by the value program; by the Olympic promotion; and by marketing and promotional efforts such as Batman, the Extra Value Meal NBA Trading Cards, Holiday Videos and value-priced promotions. The 1991 increase was due to expansion, offset by a slight decline in sales at existing restaurants.

(In millions of dollars)	**1992**	1991	1990	Five years ago	Ten years ago
Operated by franchisees	**$10,615**	$ 9,873	$ 9,379	$ 7,995	$4,704
Operated by the Company	**2,353**	2,410	2,655	2,422	1,642
Operated by affiliates	**275**	236	218	159	16
U.S. sales	**$13,243**	$12,519	$12,252	$10,576	$6,362

Restaurants

	1992	1991	1990	Five years ago	Ten years ago
Operated by franchisees	**7,375**	7,149	6,780	5,772	4,418
Operated by the Company	**1,395**	1,446	1,632	1,681	1,479
Operated by affiliates	**189**	169	164	114	21
U.S. restaurants	**8,959**	8,764	8,576	7,567	5,918

There were 195 restaurants added in the U.S. in 1992; this represented 29% of Systemwide additions compared with 59% five years ago. McDonald's expects to boost U.S. expansion over the next several years by adding between 250 and 300 restaurants annually.

Restaurants operated by franchisees and affiliates represented 84% of U.S. restaurants at year-end 1992 compared with 78% five years ago. Over the last several years, the Company has franchised certain restaurants it formerly operated. However, the Company continues to own or control the land and buildings. The restaurants that have been franchised either were generating weak operating results, not building sales as expected, or located in outlying markets. The franchising of these businesses accomplished several objectives. On-premise owners can improve operations, sales and profits; and the franchising of these restaurants also improves consolidated profits.

Operating results

(In millions of dollars)	1992	1991	1990	1989	1988
Revenues					
Sales by Company-operated restaurants	**$2,353**	$2,410	$2,655	$2,728	$2,629
Revenues from franchised restaurants	**1,396**	1,300	1,216	1,159	1,072
Total revenues	**3,749**	3,710	3,871	3,887	3,701
Operating costs and expenses					
Company-operated restaurants	**1,920**	2,000	2,221	2,250	2,169
Franchised restaurants	**235**	217	202	180	165
General, administrative and selling expenses	**566**	549	511	490	468
Other operating (income) expense—net	**(13)**	(56)	(49)	(22)	(18)
Total operating costs and expenses	**2,708**	2,710	2,885	2,898	2,784
U.S. operating income	**$1,041**	$1,000	$ 986	$ 989	$ 917

U.S. revenues were negatively affected by the franchising of certain Company-operated restaurant businesses in 1992, 1991 and 1990. However, sales growth in 1992 more than offset this impact.

U.S. Company-operated margins increased $22 million or 5% in 1992 despite fewer Company-operated restaurants. This increase reflected sales growth, cost efficiencies and lower commodity costs. These margins improved to 18.4% of sales in 1992, compared with 17.0% in 1991 and 16.4% in 1990. U.S. franchised margins rose $78 million or 7% in 1992, reflecting sales improvement and a larger franchised base. These margins were 83.2% of applicable revenues in 1992, compared with 83.3% in 1991 and 83.4% in 1990. While it is difficult to assess the potential effects of federal and state legislation in the U.S. which may impact the industry, the Company believes it can maintain operating margins within the same range of the past ten years by building sales and reducing costs.

U.S. operating income rose 4% in 1992 and was 56% of consolidated operating income, compared with 60% in 1991. The increase was driven by strong sales and margins at both franchised and Company-operated restaurants, partially offset by lower gains on sales of restaurant businesses in 1992 and a gain on the sale of real estate by a U.S. affiliate in 1991. The 1991 increase was impacted by the advertising and promotion costs to launch the U.S. value program. Operating income included $330 million of depreciation and amortization in 1992, compared with $325 million in 1991 and 1990.

Assets and capital expenditures

(In millions of dollars)	1992	1991	1990	1989	1988
New restaurants	**$ 196**	$ 214	$ 446	$ 490	$ 434
Existing restaurants	**125**	151	249	283	284
Other properties	**76**	45	51	74	85
U.S. capital expenditures	**$ 397**	$ 410	$ 746	$ 847	$ 803
U.S. assets	**$6,410**	$6,154	$6,060	$5,646	$5,148

U.S. assets grew $256 million or 4% in 1992. At year-end 1992, about 55% of consolidated assets were located in the U.S. Capital expenditures decreased $13 million or 3% in 1992, and represented 35% of consolidated capital expenditures compared with 59% in 1987. The amounts excluded expenditures made by franchisees. New restaurant expenditures decreased $18 million or 8% because of lower average development costs achieved through construction and design efficiencies.

Expenditures for existing restaurants continued to decline, reflecting aggressive reinvestment in prior years. Expenditures for existing restaurants included modifications to attain the physical attributes desired by our customers such as comfortable seating, attractive landscaping, and bright, clean-looking interiors.

Rebuilding and relocating restaurants has generated additional sales, reflecting our ability to adjust to changing demographics, traffic patterns, and market opportunities. More than $35 million was spent for these investments in 1992; $298 million has been spent over the past five years. The rise in other property expenditures was partly attributable to management information system equipment enhancements and further testing of Leaps & Bounds, a family play center concept.

(In thousands of dollars)	1992	1991	1990	1989	1988
Land	**$ 361**	$ 433	$ 433	$ 472	$ 415
Building	**515**	608	720	682	622
Equipment	**361**	362	403	416	388
U.S. average costs	**$1,237**	$1,403	$1,556	$1,570	$1,425

Average land costs declined as a result of new building designs, which require smaller parcels, and a softer real estate market. Average building costs decreased due to new building designs and construction efficiencies. New building designs comprised over 60% of 1992 openings, compared with 10% in 1991. McDonald's intends to pursue further development cost reductions.

The Company continues to emphasize restaurant property ownership. Real estate ownership yields long-term benefits, including the ability to fix occupancy costs. In addition to purchasing new properties, previously leased properties are acquired. The Company owned 68% of U.S. sites at year-end 1992, the same as five years ago.

OPERATIONS OUTSIDE OF THE U.S.

Sales outside of the U.S. have grown at a ten-year compound annual rate of 20%, while operating income has increased at 25%.

Sales

The 1992 and 1991 increases were due to market penetration and higher sales at existing restaurants. Changing foreign currencies helped 1992 results due to stronger Japanese, German and French currencies. Strong operating results were achieved in 1992 and 1991 despite weak economies in several countries, particularly Canada, England and Japan.

(In millions of dollars)	1992	1991	1990	Five years ago	Ten years ago
Operated by franchisees	**$3,859**	$3,085	$2,638	$1,457	$ 535
Operated by the Company	**2,750**	2,499	2,364	1,245	453
Operated by affiliates	**2,033**	1,825	1,505	1,052	459
Sales outside of the U.S.	**$8,642**	$7,409	$6,507	$3,754	$1,447

Europe contributed 69% of the 1992 increase despite certain weak economies. Market penetration—primarily in Germany, France and England—higher sales at existing restaurants, and stronger foreign currencies contributed to these results. Strong sales were also achieved in Austria, the Netherlands, Spain, Sweden and Switzerland.

The Pacific represented 23% of the 1992 increase, primarily from market penetration coupled with better sales in Australia, Hong Kong, Philippines and Singapore. Sales were negatively impacted by a weak Japanese economy, and favorably impacted by a strong Japanese Yen, partially offset by a weak Australian Dollar.

Latin America represented 6% of the 1992 increase, primarily from expansion, offset in part by an economic recession in Brazil.

Canada contributed 2% of the 1992 increase, primarily from higher sales at existing restaurants, largely offset by a weak Canadian Dollar. Sales in 1991 were negatively impacted by the soft economy and implementation of a retail tax.

Restaurants

	1992	1991	1990	Five years ago	Ten years ago
Operated by franchisees	**1,862**	1,586	1,351	988	493
Operated by the Company	**1,156**	1,101	1,011	718	367
Operated by affiliates	**1,116**	967	865	638	481
Restaurants outside of the U.S.	**4,134**	3,654	3,227	2,344	1,341

During the past five years, 56% of Systemwide additions have been outside of the U.S. Of the 480 restaurants added in 1992, 57% were in the six largest markets compared with 63% in 1991. This was indicative of the growing importance of emerging markets. Our global infrastructure has allowed expansion to accelerate; over the next several years, between 450 and 600 restaurants will be added annually.

About 75% of Company-operated restaurants outside of the U.S. were in England, Canada, Germany and France. About 60% of franchised restaurants outside of the U.S. were in Canada, Germany, Australia and France. Restaurants operated by affiliates were primarily located in Japan and other Pacific countries.

Operating results

(In millions of dollars)	1992	1991	1990	1989	1988
Revenues					
Sales by Company-operated restaurants	**$2,750**	$2,499	$2,364	$1,873	$1,567
Revenues from franchised restaurants	**634**	486	405	306	253
Total revenues	**3,384**	2,985	2,769	2,179	1,820
Operating costs and expenses					
Company-operated restaurants	**2,206**	2,029	1,915	1,528	1,284
Franchised restaurants	**114**	90	77	61	53
General, administrative and selling expenses	**295**	246	213	166	138
Other operating (income) expense—net	**(51)**	(58)	(46)	(25)	(26)
Total operating costs and expenses	**2,564**	2,307	2,159	1,730	1,449
Operating income outside of the U.S.	**$ 820**	$ 678	$ 610	$ 449	$ 371

The 1992 revenues and operating income reflected accelerated expansion and better performance despite weak economies in several major markets. Stronger foreign currencies also contributed approximately 2 percentage points of the increase in operating income outside of the U.S.

Company-operated restaurant margins grew $74 million or 16% in 1992. These margins improved to 19.8% of sales in 1992, compared with 18.8% in 1991 and 19.0% in 1990. Franchised margins grew $124 million or 31% in 1992. These margins were 82.1% of applicable revenues in 1992, compared with 81.5% in 1991 and 81.0% in 1990. The increases in General, administrative and selling expenses for 1992 and 1991 were due primarily to higher employee costs associated with expansion.

Other operating income decreased in 1992 due to lower affiliate results and lower gains on sales of restaurant businesses, offset somewhat by the favorable settlement of a sales tax case in Brazil. In 1991, affiliate results reflected better operations in Japan and included gains from property dispositions.

Operations outside of the U.S. continued to contribute greater amounts to consolidated results as follows:

(As a percent of consolidated)	**1992**	1991	1990	1989	1988
Systemwide sales	**39**	37	35	31	29
Total revenues	**47**	45	42	36	33
Operating income	**44**	40	38	31	29
Restaurant margins					
Company-operated	**56**	53	51	42	38
Franchised	**31**	27	24	20	18
Systemwide restaurants	**32**	29	27	26	25
Assets	**45**	46	43	38	37

European revenues and operating income grew $381 and $123 million, respectively, primarily because of Germany, France and England; these results were aided by stronger foreign currencies. These markets accounted for 85% of the improvement in European operating income and comprised nearly 90% of European operating income. Among the other larger markets, the Netherlands and Spain posted stronger operating results. The 1991 results were aided by expansion and strong advertising campaigns, despite the Gulf War, weaker foreign currencies and England's economy. The majority of the 1991 revenue and most of the operating income increases were generated by Germany and France.

Pacific revenues grew $42 million and operating income increased $6 million. Operating income improvement was largely attributable to stronger operations in Australia boosted by expansion and higher sales at existing restaurants. Hong Kong and Singapore contributed better results while earnings from Japan were impacted by a slow economy. In 1991, Hong Kong, Australia and Japan accounted for most of the revenue and operating income increases, driven by expansion and higher sales at existing restaurants.

Latin American revenues grew $10 million, while operating income increased $20 million. Operating income benefited from the favorable settlement of a sales tax case in Brazil along with better operating results in Mexico, Venezuela and Argentina. Brazilian results were affected by a weak economy in both 1992 and 1991. Argentina provided a majority of the 1991 operating income increase due to an improved economy.

Canadian revenues decreased $34 million, primarily due to the franchising of restaurant businesses and a weaker Canadian Dollar. Operating income decreased $7 million, primarily due to lower gains on sales of restaurant businesses and a weaker currency. Canada has experienced a soft economy in the past several years.

Assets and capital expenditures

Assets outside of the U.S. rose $76 million or 1% in 1992; the effects of expansion were largely offset by weaker foreign currencies. At year-end 1992, about 45% of consolidated assets were located outside of the U.S.; 66% of these assets were located in England, Germany, France, Canada and Australia.

(In millions of dollars)	**1992**	1991	1990	1989	1988
New restaurants	**$ 603**	$ 612	$ 639	$ 486	$ 376
Existing restaurants	**91**	94	126	148	98
Other properties	**47**	39	74	64	71
Capital expenditures outside of the U.S.	**$ 741**	$ 745	$ 839	$ 698	$ 545
Assets outside of the U.S.	**$5,271**	$5,195	$4,608	$3,529	$3,011

In the past five years, more than $3.5 billion has been invested outside of the U.S. During 1992, capital expenditures rose in the Pacific and Europe, but declined in Canada and Latin America. Approximately 73% of capital expenditures outside of the U.S. were invested in Europe—primarily in France, Germany and England.

In spite of more openings in 1992 and 1991, expenditures for new restaurants declined in both years compared with the prior year. Average development costs continued to decline because of savings realized from construction and design efficiencies, standardization and global sourcing. Average costs of new restaurants for the five largest, majority-owned markets were nearly double U.S. average costs in 1992. While development costs are typically higher outside of the U.S. to accommodate higher sales, further reductions are expected from cost-effective sourcing coupled with building and design efficiencies.

SEIZING THE GLOBAL MARKETPLACE

McDonald's 1992 Annual Report

This transcript reflects a conversation among the five people identified below, which focuses on the long-term opportunities for McDonald's, and supplements the letter to shareholders.

Broadcast journalist Bill Kurtis teams up with Mike Quinlan, Chairman and Chief Executive Officer; Ed Rensi, President and Chief Executive Officer—U.S.A.; Jim Cantalupo, President and Chief Executive Officer—International; and Jack Greenberg, Vice Chairman and Chief Financial Officer, to discuss McDonald's global growth opportunities for the future.

Quinlan: Hello, I'm Mike Quinlan. And this is a videotape about the growth of your Company. It's about leadership and how we expect to grow our leadership position. And it's about our commitment and single-minded focus to 100 percent total customer satisfaction, increasing our market share, and improving our profitability. These three goals are global in application and are supported by our management, our staff, our licensees and our suppliers around the world. They are goals which drive our long-term objective of seizing a dominant market position wherever we do business. So, now, I invite you to stay tuned--hopefully with a Big Mac in hand—and enjoy our conversation. But first, this commercial message.

"Fair Trade" :60
This commercial tells a McDonald's value story without words. You watch as a child trades his soccer ball for an airplane, then the airplane for an inner tube until he gets enough change for a meal at McDonald's. Through the window at McDonald's, he sees his original soccer ball and trades his French Fries for it. In the end, everyone really got what they wanted.

Quinlan:...people want a fair deal on the products that they choose to buy from us or from anybody else.

Kurtis: *Jack, what is the centerpiece of management's long-term growth strategy?*

Greenberg: Well, I think it's very clear. I think we all agree that the centerpiece of our long-term growth strategy is 100 percent customer satisfaction.

Kurtis: *That's easy, but how do you do it?*

Quinlan: Well, you have to start with the state of mind that achieving 100 percent customer satisfaction has to be the basis for everything that we do. You've got to get it throughout the whole organization, from the wonderful kids that we have working on the crew, right up to the owner/operators and the Company people that are running the stores. It's got to be the single agenda that we have.

Greenberg: Clearly value is an important part of that total agenda, and one that we spend a lot of time on.

Quinlan: Oh sure...sure...right.

Rensi: So we're in the value business. We've been in the value business for a long time. And that not only means price, but it means the experience the customer gets. And one of the things that's important for us is for our employees to be satisfied customers of management, so that they can then deliver like they've received.

Kurtis: *Now, does that apply overseas as well as at home?*

Cantalupo: Well, it's really interesting that even though we operate in 65 very different countries and cultures, people respond to the same basic things. And the underpinnings of our system of quality, service, cleanliness and value are items people respond to around the world.

Greenberg: I think we've all traveled internationally, and we've seen really the same formula work in each one of these markets.

Kurtis: *And from the beginning too, didn't you?*

Rensi: Absolutely!

Greenberg: Well, sure. We started out as a 15-cent hamburger chain, and I guess we're still selling 15-cent hamburgers at today's prices, when you adjust it for inflation.

Rensi: Actually, isn't it 13 cents now when you adjust for inflation?

Greenberg: I think that's right.

Kurtis: *Do the Extra Value Meals work as well?*

Rensi: Oh absolutely. The Extra Value Meals not only provide a great pocketbook opportunity for our customers, but they also enhance the profitability of the restaurant, because we're bundling very important components with a sandwich, a fry and a drink. So it works for the customer and it works for the Company.

Cantalupo: There's also a third reason internationally I think. Our dinner business is very big. It also positions us as a place you go to for a meal...which is...McDonald's is serving food...and it's a meal combination. Those value meals are very important to positioning us in that manner.

Greenberg: Right, because many customers traditionally might have thought of McDonald's as a snack opportunity only. And I think you're right. I think the value meals do create this meal opportunity message.

Quinlan: It has to be part of an overall thing. I mean...McDonald's has to be a special company. We have to stand a cut above the rest, all of the people that we compete with around the world. We have to mean something different and unique to our existing and potential customers that only we can be. And that's what we're all about in the Company today, making ourselves more of a special place for everybody.

Kurtis: *What role does the owner/operator have?*

Quinlan: Oh, I think they've made us what we are. Ed's probably the best authority on the owner/operators with—what do we have—2,800 operators here in the United States alone?

Rensi: 2,500 plus here in the United States. They're our greatest asset, really, because they have their net worth on the line, and they're very interested in making sure that their customers are happy every day. So they play a very pivotal role and they provide us great leadership too... because they keep us honest. They're very close to our customers.

Cantalupo: And that same underpinning in international is true. The same basic role of the owner/operator is very important to us internationally. They provide the link between the System and the culture, and they work with the community...community involvement for all the great things McDonald's stands for around the world.

Greenberg: And because they're on the front line in the restaurant, their sense of what it takes to satisfy a customer is of course key to all this. They understand the changing needs, the competition, the importance of pricing in today's world... those kinds of issues. They'll see that before we will. And so they're very important partners in development of this kind of a strategy.

Rensi: Many of the great new products we've put on our menu have come from owner/operators in the field. It's a great asset.

Kurtis: *That's a continuing process, isn't it?*

Rensi: Sure. I think when you look at the hard-earned dollars our customers are giving us... they're interested in taste... they're interested in temperature...quality ...and we always have to optimize our menu for current, today taste. Our menu has to evolve with the sophistication of the consumers' taste.

Quinlan: It's interesting, Bill, when you look at our new products and our promotional products. Those that succeed the most are those that are exciting, but that also embody the things that our customers expect from us. Good value is something a little bit unique, something fun. And I think that's the way we have to look at it in the future. That applies to our regular menu also. I think we have to evolve it and stay in close touch with what's going on out there in the marketplace and give our customers what they want.

Cantalupo: And we should probably talk a little bit about the fact that value is more than just price. It's the whole experience which our customers have come to expect from McDonald's. It's the drive-thrus...it's the Playlands...it's the smile at the front counter...it's all those things... the experience.

Greenberg: I think that's right. And it's interesting that one of our major efforts under this whole 100 percent customer satisfaction strategy is to work with our employees and to give them the permission to satisfy the customer in the restaurant. And it is all the things that Jim has indicated. And it also means make it hassle-free, make it friendly, and get rid of the problems that may come with serving food over a counter. And we're spending a lot of time and money on training and development with our employees to make all that happen in the restaurant.

Kurtis: *We want to talk about increasing market share and profitability, but first let's take a commercial break.*

"The Showdown" :60
In this commercial, Michael Jordan and Larry Bird shoot it out for Michael's Big Mac. This game of horse starts out innocently enough, but quickly escalates as Jordan and Bird make more difficult shots from the stands, the rafters and even outside the stadium. The end scene takes place at the top of the John Hancock Building in Chicago as Jordan and Bird describe their next outrageous shot, "over the highway, off the billboard... nothing but net."

Kurtis: *Well, I guess "nothing but net" could also describe your performance in the trading areas. But how do you increase the market share there?*

Quinlan: We have to increase our market share and differentiate ourselves in every place that we do business. When you look at McDonald's, even though we're so big right now, we're just a minority share of the total opportunity that's available out there. And whether you're in the United States or you're in international, we're talking about an impulse-driven business ...that's a four-minute drive time or a four-minute walk time around each and every restaurant that we have. So that's where we want to dominate, that's where we want to be special, where we want to be the best. So that impulse says...go to McDonald's.

Greenberg: I think one of the ways that we do increase that market share in that trading area that Mike's described is by focusing on daypart segments—whether that's breakfast, lunch or dinner. I think that's a very important part of this whole strategy of building market share.

Rensi: In the U.S., obviously, same store sales are going to be very important to build market share and getting our customers to come back more frequently... and more of them. Also, new site development—with our new Series 2000 building, with our much lower development costs—we're going to be able to move into new markets in the United States. There are some 1,200 counties in the United States that have county seats that we don't have a McDonald's in, so it's a great opportunity.

Greenberg: Don't have a McDonald's in yet!

Rensi: Yet!

Greenberg: That's what he wanted to say!

Cantalupo: In the international arena, we don't usually like to talk about market share because we're not going to share anything. *(Laughter)*. We're after the entire market and it's really true in many of the markets. We're making... we're creating the market for our kind of restaurant experience. But the same principles apply in terms of building same store sales as well as developing new stores in new markets to serve new customers.

Quinlan: Realistically, I think we'll all agree that we have to focus on both ends of increasing our market share, the new site development and the same store sales. And I think we all believe that at this point in time, we are much more conscious of the overall potential for the Company. It's almost limitless, and we intend to push that bar as high as we can.

Kurtis: *Is it valuable not to just be there, but to be the most trusted as well?*

Quinlan: Oh yeah. I mean, how do you differentiate yourself, how do you set yourself apart? Trust means many things. People have to respect us as the best in the business in everything that we do, whether it's value... whether it's speed of service... whether it's the quality of the food. And it's our job to deliver that. And if we deliver that, as Jim has said for the international division and Ed has said for the U.S., build it and give it to the customers and they will come.

Greenberg: I think part of that trust, in addition to the things that Mike just said, deals with the kind of involvement with the community that McDonald's, I think, has some reputation for. Ray Kroc's legacy includes this very important point of giving something back to the communities that we do business in. And all of us believe that strongly, and our owner/operators in each one of these trading areas are typically very active in the kinds of charitable and educational activities that are going on in their communities.

Kurtis: *Los Angeles was a good example, wasn't it?*

Rensi: Sure was. The McDonald's operators in Los Angeles were truly part of the community. So when they had those very difficult times, they stood as part of the community and were anxious to take care of their friends and their customers.

Cantalupo: And those same principles that are underpinnings to our philosophy are being applied in building our business internationally. We have Ronald Houses in many international markets today as well as other community efforts that are going on... on a partnership basis with local communities.

Rensi: Those are deposits in the community trust bank.

Kurtis: *How do you lower expenses—operating expenses?*

Quinlan: You have to turn over every rock out in the field and examine what's underneath it, and take nothing for granted. And I think that's the process that we're about right now. We're trying to examine everything in the Company—not to be cheaper—but to be better and to be more efficient and drive the food and paper and operating costs down as low as we possibly can, so that we can pass it on to the customer in terms of increased value.

Rensi: And it's not only at supplier level... it's at the owner/operators...their personal G&A...in running their businesses... at the corporate level...asking our suppliers to do that and making our restaurants more efficient in the way we apply labor.

Cantalupo: I think it's also, in terms of the Company's growth, taking a different perspective about our business in that we're much more global in nature today, and that's gotten us into more of a global purchasing perspective...one that we might not have had 10...20 years ago because we weren't truly global. But today we are, and that takes a different look at how we're structured. An example I always give is we recently consolidated our sesame seed purchases from a supplier in Mexico and saved the System over $2 million. And that's every country in the world, including the U.S., by consolidating those purchases. That's an example of leveraging the System—13,000 stores all working along the same line.

Greenberg: That's a lot of sesame seeds!

Cantalupo: It's a lot of sesame seeds too!

Rensi: I should mention that the U.S. took a lesson that international partners taught us, and that is to develop a low-cost equipment package that ultimately translated into the Series 2000 building, which is a much lower development cost for new building and equipment for our licensees, which means more profit for the Company, more profit for the licensees, and better value for the customer.

Cantalupo: I would add onto that that one of the underpinnings of our long-term strategies is lowering development costs, and in international, that's a key factor to our long-term growth and profitability. And I think we've had great results the last couple of years in all major countries in the world, and that's spreading. They're sharing those technologies with the U.S. and back and forth, and we're making some progress.

Rensi: It's good synergism.

Kurtis: *It's really the cutting edge, isn't it?*

Greenberg: I think it is, and I wonder if it isn't worth saying that I think there's something very important in the way Mike had phrased it earlier—that we're not trying to be the absolute lowest cost producer, because you can always figure out how to do that. But to do that, you're probably taking something away from the value you're trying to give your customers. We want to be the most efficient producer. We want to be a producer that has low costs. But the goal of being the absolute lowest cost isn't something that we've defined. Because we really want to be sure that we maintain the high quality and that that value formula that we talked about earlier isn't hurt in any way in terms of our search for reducing costs.

Kurtis: *That's a good thought. How would you sum up a rather unique annual report?*

Greenberg: Well, I think we all agree that it is a unique report, and I think all of us are proud of our people that designed this very special approach at communicating with our shareholders in this year's annual report. What we wanted to do, and I think we have done, is share with each of you the three key strategies that are going to drive this business long-run. And that is achieving 100 percent customer satisfaction, increasing market share, and improving profitability. And these three key initiatives will clearly drive the sales and earnings growth that we want for our business and, in turn, will clearly increase the value of your investment in McDonald's. We're focusing on the right issues, and we're focusing on the right opportunities to build this business long-run. And I believe that it's going to be an exciting time—and a very rewarding time—to be a McDonald's shareholder.

Quinlan:...I think it is our task to make sure we are never satisfied with what our customers think about us. That goes to the menu, the building style...

Videotape requests

If you are a McDonald's shareholder and would like a VHS videotape copy of this conversation, please write or call McDonald's Shareholder Services Center, Kroc Drive, Oak Brook, IL 60521, 1-708-575-7428.

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Expenditures for existing restaurants included seating and decor upgrades, and equipment required for new products and operating efficiencies. The majority of these expenditures were in Europe. Expenditures for other properties were principally for office and training facilities.

As in the U.S., expansion outside of the U.S. emphasizes restaurant property ownership. However, various laws and regulations make property acquisition and ownership much more difficult than in the U.S. Ownership is obtained when practical; otherwise, long-term leases are used as an alternative. In addition, certain markets have laws and customs which offer stronger tenancy rights than are available in the U.S. The Company and its affiliates owned 36% of sites outside of the U.S. at year-end 1992, compared with 34% five years ago.

Capital expenditures made by affiliates—which were not included in the consolidated amounts—were $206 million in 1992, compared with $176 million in 1991. The majority of the 1992 expenditures were for restaurant development in Japan and Taiwan.

FINANCIAL POSITION

McDonald's funded capital expenditures with Cash provided by operations in both 1992 and 1991. This trend should continue as a result of reducing development costs, while increasing expansion.

Total assets and capital expenditures

Total assets grew $332 million or 3% in 1992; Net property and equipment represented 82% of Total assets and rose $39 million. Capital expenditures decreased $17 million or 2%, reflecting reductions in development costs through construction and design efficiencies, and lower reinvestment.

Cash provided by operations

Cash provided by operations was relatively flat in 1992, mainly due to $159 million in payments related to various prior years' tax matters. For the second straight year, Cash provided by operations exceeded capital expenditures. The 1992 excess of $339 million—together with other sources of cash such as borrowings and preferred stock issuance—was used for debt repayments, share repurchase, dividends, and purchases of restaurant businesses.

(In percents)	**1992**	1991	1990	1989	1988
Cash provided by operations as a percent of total debt	**37**	31	27	31	36
Cash provided by operations as a percent of capital expenditures	**131**	126	83	80	89

The Company believes that cash flow measures may also be good indicators of growth and financial strength. Over the past few years, cash flow coverage has improved significantly.

While cash generated is significant relative to cash required, the Company also has the ability to meet short-term needs through commercial paper borrowings and line of credit agreements. Accordingly, a relatively low current ratio—.56 at year-end 1992—has been consistently maintained. Excess cash flow has been used to reduce debt, thereby minimizing interest expense.

Financings

The Company strives to minimize interest expense and the impact of changing foreign currencies, while maintaining the capacity to meet growth requirements. To accomplish these objectives, McDonald's generally finances long-term assets with long-term debt in the currencies in which assets are denominated, while remaining flexible to take advantage of changing foreign currencies and interest rates.

Over the years, major capital markets and various techniques have been utilized to meet financing requirements and reduce interest expense. Currency exchange agreements have been employed in conjunction with borrowings to obtain desired currencies at attractive rates. Interest-rate exchange agreements and interest-rate caps have been used to effectively convert fixed-rate to floating-rate debt, or vice versa, and to limit interest expense.

The Company actively manages its debt portfolio in order to respond to changes in interest rates and foreign currencies. Accordingly, the Company periodically retires, redeems, and repurchases debt, and terminates exchange agreements. While changing foreign currencies affect reported operating results, the Company lessens its short-term cash exposure by actively hedging foreign-denominated cash flows, by reinvesting cash locally, and through natural hedges of interest payments on foreign-denominated debt.

	1992	1991	1990	1989	1988
Fixed-rate debt as a percent of total debt at year-end	**75**	78	78	76	68
Weighted average annual interest rate	**9.3**	9.4	9.4	9.4	8.8
Foreign-denominated debt as a percent of total debt at year-end	**72**	61	60	59	58

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Duff & Phelps began rating the debt in 1990, and currently rates it AA+. The Company has not experienced, nor does it expect to experience, difficulty in obtaining financing or in refinancing existing debt. The Company had $1.5 billion under line of credit agreements and $408 million under previously filed shelf registrations available at year-end 1992 for future debt issuance.

Foreign-denominated debt has been used to lessen the impact of changing foreign currencies on Net income and Total shareholders' equity. Total foreign-denominated debt, including effects of currency exchange agreements, was $2.7 and $2.8 billion at year-end 1992 and 1991, respectively.

Although McDonald's prefers to own real estate, leases are an alternative financing method. As in the past, some new properties will be leased. Such leases frequently include renewal and/or purchase options. In the past five years, McDonald's has leased properties related to 39% of U.S. openings and 64% of openings outside of the U.S.

During the past two years, the Company reduced balance sheet leverage, lowered share repurchase and reinvestment, while increasing expansion. Total debt as a percent of total capitalization—defined as total debt and Total shareholders' equity—was 40% at year-end 1992, compared with 49% and 53% at year-end 1991 and 1990, respectively. Total debt was reduced by $758 million in 1992 because of repayments using Cash provided by operations in excess of capital expenditures and other cash sources, and due to the benefits of changing foreign currencies. Cash provided by operations is expected to cover capital expenditures over the next several years, even as expansion continues to accelerate.

Total shareholders' equity

Total shareholders' equity rose $1.1 billion and represented 50% of Total assets at year-end 1992. One technique used to enhance common shareholder value is share repurchase through excess cash flow or debt capacity, while maintaining a strong equity base for future expansion. At year-end 1992, the value of the shares repurchased by the Company and recorded as Common stock in treasury was $2.5 billion.

In conjunction with efforts to enhance common shareholder value and to lower the cost of equity capital, the Company issued $500 million of 7.72% Cumulative Preferred Stock and the Board of Directors authorized a $500 million common share repurchase program. Through year-end 1992, the Company had repurchased 1.9 million shares for $92 million. In connection with this program, the Company sold 2.0 million Common equity put options which are exercisable in April 1993 at an average price of $46.98 per share.

Weaker foreign currencies reduced Total shareholders' equity by $160 million in 1992. Financing foreign-denominated assets with foreign-denominated debt tempered the effect of changing foreign currencies on Total shareholders' equity. At year-end 1992, foreign-denominated assets not entirely financed with related foreign-denominated debt were primarily located in England, Canada, Japan, France, Germany, Spain and Australia.

Returns

Return on average assets is computed using Income before provision for income taxes and Interest expense. Net income, less preferred stock dividends (net of tax in 1992), is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

	1992	1991	1990	1989	1988
Return on average assets	**16.1**	15.8	16.7	17.3	17.4
Return on average common equity	**18.2**	19.1	20.7	20.5	20.5

The 1992 improvement in return on average assets reflected better worldwide operating results and lower asset growth. The decline in return on average common equity over the past two years reflected lower share repurchase as excess cash flow was used to pay down debt. In recent years, returns were affected by the soft economies in the U.S. and certain markets outside of the U.S. Also influencing these returns were expansion outside of the U.S., escalating new restaurant development costs and greater reinvestment prior to 1991, and acquisitions of previously leased properties.

Effects of changing prices–inflation

McDonald's has demonstrated an ability to manage inflationary cost increases effectively. Rapid inventory turnover, the ability to adjust prices, substantial property holdings—many of which are at fixed costs and partially financed by debt made cheaper by inflation—and cost control have enabled McDonald's to mitigate the effects of inflation.

Management's report

Management is responsible for the preparation and integrity of the consolidated financial statements and Financial Comments appearing in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on management's best estimates and judgments. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded, and that transactions are executed as authorized and are recorded and reported properly. This system of controls is based upon written policies and procedures, appropriate divisions of responsibility and authority, careful selection and training of personnel and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain the highest ethical standards and that business practices throughout the world are to be conducted in a manner which is above reproach.

Ernst & Young, independent auditors, has audited the Company's financial statements and their report is presented herein.

The Board of Directors has an Audit Committee composed entirely of outside Directors. Ernst & Young has direct access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD'S CORPORATION

Oak Brook, Illinois
January 27, 1993

Report of independent auditors

The Board of Directors and Shareholders
McDonald's Corporation

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 1992 and 1991, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of McDonald's Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 1992 and 1991, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

ERNST & YOUNG

Chicago, *Illinois*
January 27, 1993

CONSOLIDATED STATEMENT OF INCOME

(In millions of dollars, except per common share data)	Years ended December 31, **1992**	1991	1990
Revenues			
Sales by Company-operated restaurants	**$5,102.5**	$4,908.5	$5,018.9
Revenues from franchised restaurants	**2,030.8**	1,786.5	1,620.7
Total revenues	**7,133.3**	6,695.0	6,639.6
Operating costs and expenses			
Company-operated restaurants			
Food and packaging	**1,688.8**	1,627.5	1,683.4
Payroll and other employee benefits	**1,281.4**	1,259.2	1,291.0
Occupancy and other operating expenses	**1,156.3**	1,142.4	1,161.2
	4,126.5	4,029.1	4,135.6
Franchised restaurants—occupancy expenses	**348.6**	306.5	279.2
General, administrative and selling expenses	**860.6**	794.7	724.2
Other operating (income) expense—net	**(64.0)**	(113.8)	(95.3)
Total operating costs and expenses	**5,271.7**	5,016.5	5,043.7
Operating income	**1,861.6**	1,678.5	1,595.9
Interest expense—net of capitalized interest of $19.5, $26.2, and $36.0	**373.6**	391.4	381.2
Nonoperating income (expense)—net	**(39.9)**	12.3	31.6
Income before provision for income taxes	**1,448.1**	1,299.4	1,246.3
Provision for income taxes	**489.5**	439.8	444.0
Net income	**$ 958.6**	$ 859.6	$ 802.3
Net income per common share	**$ 2.60**	$ 2.35	$ 2.20
Dividends per common share	**$ .39**	$ .36	$ .33

The accompanying Financial Comments are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(In millions of dollars)	December 31, 1992	1991
Assets		
Current assets		
Cash and equivalents	**$ 436.5**	$ 220.2
Accounts receivable	**245.9**	238.4
Notes receivable	**33.7**	36.0
Inventories, at cost, not in excess of market	**43.5**	42.6
Prepaid expenses and other current assets	**105.1**	108.8
Total current assets	**864.7**	646.0
Other assets and deferred charges		
Notes receivable due after one year	**99.0**	123.1
Investments in and advances to affiliates	**399.7**	374.2
Miscellaneous	**330.7**	278.2
Total other assets and deferred charges	**829.4**	775.5
Property and equipment		
Property and equipment, at cost	**12,658.0**	12,368.0
Accumulated depreciation and amortization	**(3,060.6)**	(2,809.5)
Net property and equipment	**9,597.4**	9,558.5
Intangible assets—net	**389.7**	369.1
Total assets	**$11,681.2**	$11,349.1
Liabilities and shareholders' equity		
Current liabilities		
Notes payable	**$ 411.0**	$ 278.3
Accounts payable	**343.3**	313.9
Income taxes	**109.7**	157.2
Other taxes	**74.8**	82.3
Accrued interest	**133.3**	185.7
Other accrued liabilities	**203.1**	201.4
Current maturities of long-term debt	**269.4**	69.1
Total current liabilities	**1,544.6**	1,287.9
Long-term debt	**3,176.4**	4,267.4
Security deposits by franchisees and other long-term liabilities	**225.2**	224.5
Deferred income taxes	**748.6**	734.2
Common equity put options	**94.0**	
Shareholders' equity		
Preferred stock, no par value; authorized—165.0 million shares; issued—5.8 and 9.9 million	**680.2**	298.2
Common stock, no par value; authorized—1.25 billion shares; issued—415.2 million	**46.2**	46.2
Additional paid-in capital	**260.2**	201.9
Guarantee of ESOP Notes	**(271.3)**	(286.7)
Retained earnings	**6,727.3**	5,925.2
Foreign currency translation adjustment	**(127.4)**	32.3
	7,315.2	6,217.1
Common stock in treasury, at cost; 51.6 and 56.5 million shares	**(1,422.8)**	(1,382.0)
Total shareholders' equity	**5,892.4**	4,835.1
Total liabilities and shareholders' equity	**$11,681.2**	$11,349.1

The accompanying Financial Comments are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In millions of dollars) Years ended December 31,	**1992**	1991	1990
Operating activities			
Net income	**$ 958.6**	$ 859.6	$ 802.3
Adjustments to reconcile to cash provided by operations			
Depreciation and amortization	**554.9**	514.2	493.3
Deferred income taxes	**22.4**	64.7	70.8
Changes in operating working capital items			
Accounts receivable increase	**(29.1)**	(40.9)	(26.6)
Inventories, prepaid expenses and other current assets (increase) decrease	**2.2**	.4	(32.1)
Accounts payable increase (decrease)	**.8**	(22.7)	(14.5)
Accrued interest increase (decrease)	**(27.4)**	27.5	(1.7)
Taxes and other liabilities increase (decrease)	**(68.2)**	85.2	80.5
Other—net	**11.7**	(64.8)	(71.0)
Cash provided by operations	**1,425.9**	1,423.2	1,301.0
Investing activities			
Property and equipment expenditures	**(1,086.9)**	(1,128.8)	(1,570.7)
Sales of restaurant businesses	**124.5**	159.8	130.8
Purchases of restaurant businesses	**(64.1)**	(30.1)	(81.9)
Notes receivable additions	**(31.8)**	(38.8)	(46.2)
Property sales	**52.2**	58.6	39.5
Notes receivable reductions	**78.5**	53.1	61.2
Other	**(71.1)**	(13.5)	(55.2)
Cash used for investing activities	**(998.7)**	(939.7)	(1,522.5)
Financing activities			
Notes payable and commercial paper net borrowings supported by line of credit agreements	**17.0**	(676.7)	987.9
Other long-term debt borrowings	**509.5**	1,004.1	1,070.7
Other long-term debt repayments	**(1,041.5)**	(606.9)	(1,561.0)
Treasury stock purchases	**(79.7)**	(109.2)	(160.3)
Preferred stock issuances	**484.9**	100.0	
Common and preferred stock dividends	**(160.5)**	(148.3)	(133.3)
Other	**59.4**	30.9	23.4
Cash provided by (used for) financing activities	**(210.9)**	(406.1)	227.4
Cash and equivalents increase	**216.3**	77.4	5.9
Cash and equivalents at beginning of year	**220.2**	142.8	136.9
Cash and equivalents at end of year	**$ 436.5**	$ 220.2	$ 142.8
Supplemental cash flow disclosures			
Interest paid	**$ 395.7**	$ 368.1	$ 370.5
Income taxes paid	**$ 531.6**	$ 313.5	$ 326.5

The accompanying Financial Comments are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Dollars and shares in millions, except per share data)	*Preferred stock issued*		*Common stock issued*		*Additional paid-in capital*	*Guarantee of ESOP Notes*	*Retained earnings*	*Foreign currency translation adjustment*	*Common stock in treasury*	
	Shares	*Amount*	*Shares*	*Amount*					*Shares*	*Amount*
Balance at December 31, 1989	7.0	$200.0	415.2	$46.2	$158.9	$(199.2)	$4,545.5	$ (29.0)	(53.3)	$(1,172.0)
Net income							802.3			
Common stock cash dividends ($.33 per share)							(119.3)			
Preferred stock cash dividends ($2.01 per share)							(14.0)			
ESOP Notes payment						2.7				
Treasury stock acquisitions									(4.9)	(156.5)
Translation adjustments (including tax benefits of $27.4)								75.7		
Stock option exercises and other (including tax benefits of $13.7)	(.1)	(.3)			14.8				2.1	26.5
Balance at December 31, 1990	6.9	199.7	415.2	46.2	173.7	(196.5)	5,214.5	46.7	(56.1)	(1,302.0)
Net income							859.6			
Common stock cash dividends ($.36 per share)							(129.7)			
Preferred stock cash dividends ($2.01 for Series B and $1.74 for Series C)							(19.2)			
Preferred stock issuance	3.0	100.0			(.2)	(100.0)				
ESOP Notes payment						8.1				
Treasury stock acquisitions									(3.4)	(116.7)
Translation adjustments (including taxes of $1.0)								(14.4)		
Stock option exercises and other (including tax benefits of $15.9)		(1.5)			28.4	1.7			3.0	36.7
Balance at December 31, 1991	9.9	298.2	415.2	46.2	201.9	(286.7)	5,925.2	32.3	(56.5)	(1,382.0)
Net income							**958.6**			
Common stock cash dividends ($.39 per share)							**(141.8)**			
Preferred stock cash dividends ($2.01 for Series B, $2.32 for Series C and $.16 for Series E depositary share), (net of tax benefits of $6.4)							**(14.7)**			
Preferred stock issuance		**500.0**			**(15.1)**					
Preferred stock conversion	**(4.1)**	**(118.0)**			**22.9**				**3.2**	**95.1**
ESOP Notes payment						**12.6**				
Treasury stock acquisitions									**(1.9)**	**(92.3)**
Translation adjustments (including taxes of $21.2)								**(159.7)**		
Common equity put options issuance										**(91.5)**
Stock option exercises and other (including tax benefits of $29.7)					**50.5**	**2.8**			**3.6**	**47.9**
Balance at December 31, 1992	**5.8**	**$680.2**	**415.2**	**$46.2**	**$260.2**	**$(271.3)**	**$6,727.3**	**$(127.4)**	**(51.6)**	**$(1,422.8)**

The accompanying Financial Comments are an integral part of the consolidated financial statements.

Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in 50% or less owned affiliates are carried at equity in the companies' net assets.

Foreign currency translation

The functional currency of each operation outside of the U.S., except for those located in hyperinflationary countries, is the respective local currency.

Income taxes

In 1992, the Company adopted Financial Accounting Standards Board Statement No. 109, Accounting for Income Taxes. The effects were not material, as the Company had previously adopted Statement No. 96. Accordingly, prior year amounts have not been reclassified to conform to Statement No. 109.

Property and equipment

Property and equipment are stated at cost with depreciation and amortization provided on the straight-line method over the following estimated useful lives: buildings—up to 40 years; leasehold improvements—lesser of useful lives of assets or lease terms including option periods; and equipment—3 to 12 years.

Intangible assets

Intangible assets consist primarily of franchise rights reacquired from franchisees and affiliates, and are amortized on the straight-line method over an average life of 29 years.

Financial instruments

Non-U.S. Dollar financing transactions generally are effective as hedges of long-term investments in the corresponding currency. Interest-rate exchange agreements are designated and generally are effective as hedges of the Company's interest-rate exposures. The carrying amounts for Cash and equivalents and Notes receivable approximated fair value. For noninterest-bearing security deposits by franchisees, no fair value is provided as these deposits are an integral part of the overall franchise arrangements.

Statement of cash flows

The Company considers all highly liquid investments with short-term maturity dates to be cash equivalents. The impact of changing foreign currencies on Cash and equivalents was not material. Certain prior year amounts have been reclassified to conform to the current year's presentation.

Number of restaurants in operation

	1992	1991	1990	1989
Operated by franchisees	**8,654**	8,151	7,578	7,135
Operated under business facilities lease arrangements	**583**	584	553	438
Operated by the Company	**2,551**	2,547	2,643	2,691
Operated by 50% or less owned affiliates	**1,305**	1,136	1,029	898
Systemwide restaurants	**13,093**	12,418	11,803	11,162

Franchisees operating under business facilities lease arrangements have options to purchase the businesses. The results of operations of restaurant businesses purchased and sold in transactions with franchisees and affiliates were not material to the consolidated financial statements for periods prior to purchase and sale.

Due to an increase in the Company's ownership, the Company consolidated affiliates in South Korea, Hungary and Chile in 1992, which increased Total assets and liabilities by $22.5 million. The consolidation of the Hawaii and Venezuela affiliates increased Total assets and liabilities by $51.4 million in 1991. In addition to other consideration, in 1991 the Company issued 160,000 shares of 5% Series D Preferred Stock at $100.00 per share as part of the Hawaii acquisition. Each share is entitled to one vote and is redeemable by the Company under certain circumstances at the redemption price of $100.00 per share. The redemption value of these shares, along with future consideration, was included in Security deposits by franchisees and other long-term liabilities.

Other operating (income) expense—net

(In millions of dollars)	1992	1991	1990
Gains on sales of restaurant businesses	**$(43.1)**	$ (64.0)	$(60.6)
Equity in earnings of unconsolidated affiliates	**(29.5)**	(57.5)	(32.0)
Net losses from property dispositions	**18.1**	9.9	6.2
Other—net	**(9.5)**	(2.2)	(8.9)
Other operating (income) expense—net	**$(64.0)**	$(113.8)	$(95.3)

Gains on sales of restaurant businesses are recognized as income when the sales are consummated and other stipulated conditions are met. Proceeds from certain sales of restaurant businesses and property include notes receivable.

Income taxes

Income before provision for income taxes and the Provision for income taxes, classified by source of income, were as follows:

(In millions of dollars)	**1992**	1991	1990
U.S.	**$ 873.3**	$ 847.3	$ 810.3
Outside of the U.S.	**574.8**	452.1	436.0
Income before provision for income taxes	**$1,448.1**	$1,299.4	$1,246.3
U.S.	**$ 316.8**	$ 312.6	$ 308.0
Outside of the U.S.	**172.7**	127.2	136.0
Provision for income taxes	**$ 489.5**	$ 439.8	$ 444.0

Income before provision for income taxes outside of the U.S. and the related Provision for income taxes reflect fees received in the U.S. from operations outside of the U.S. Income before provision for income taxes in the U.S. and the related Provision for income taxes reflect interest received in the U.S. from operations outside of the U.S.

The Provision for income taxes, classified by the timing and location of payment, consisted of:

(In millions of dollars)	**1992**	1991	1990
Current			
U.S. federal	**$256.8**	$230.8	$234.4
U.S. state	**56.3**	45.3	42.0
Outside of the U.S.	**154.0**	99.0	96.8
	467.1	375.1	373.2
Deferred			
U.S. federal	**(10.3)**	46.9	44.6
U.S. state	**4.0**	8.2	6.2
Outside of the U.S.	**28.7**	9.6	20.0
	22.4	64.7	70.8
Provision for income taxes	**$489.5**	$439.8	$444.0

Net deferred tax liabilities were comprised of:

(In millions of dollars)	December 31, **1992**
Property and equipment basis differences	**$ 738.2**
Other	**154.8**
Total deferred tax liabilities	**893.0**
Deferred tax assets (1)	**(148.1)**
Net deferred tax liabilities (2)	**$ 744.9**

(1) Includes $44.4 million related to loss carryforwards offset by a $35.7 million valuation allowance.
(2) Net of $3.7 million of assets recorded in current income taxes.

Reconciliations of the statutory U.S. federal income tax rate to the effective income tax rates are shown in the following table.

	1992	1991	1990
Statutory federal income tax rate	**34.0%**	34.0%	34.0%
State income taxes, net of related federal income tax benefit	**2.7**	2.7	2.6
Other	**(2.9)**	(2.9)	(1.0)
Effective income tax rates	**33.8%**	33.8%	35.6%

U.S. income and foreign withholding taxes have not been provided on $575.0 million of undistributed earnings of certain subsidiaries and affiliates outside of the U.S. at December 31, 1992. These earnings are considered to be permanently invested in the businesses and under the tax laws are not subject to taxes until distributed as dividends. If these earnings were not considered permanently invested, no additional taxes would be provided due to the overall higher tax rates in markets outside of the U.S. and the ability to recover withholding taxes as foreign tax credits in the U.S.

Segment and geographic information

The Company operates exclusively in the foodservice industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. Operating income includes the Company's share of operating results of affiliates. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Fees received in the U.S. from subsidiaries outside of the U.S. were: 1992—$187.8 million; 1991—$153.1 million; 1990—$134.1 million.

(In millions of dollars)	**1992**	1991	1990
U.S.	**$ 3,749.4**	$ 3,710.2	$ 3,871.0
Europe/Africa	**2,187.0**	1,806.0	1,635.8
Canada	**595.1**	629.5	650.7
Pacific	**434.6**	392.5	339.9
Latin America	**167.2**	156.8	142.2
Total revenues	**$ 7,133.3**	$ 6,695.0	$ 6,639.6
U.S.	**$ 1,041.6**	$ 1,000.4	$ 986.2
Europe/Africa	**484.0**	361.3	325.3
Canada	**113.5**	120.7	129.5
Pacific	**163.2**	157.2	120.8
Latin America	**59.3**	38.9	34.1
Operating income	**$ 1,861.6**	$ 1,678.5	$ 1,595.9
U.S.	**$ 6,410.6**	$ 6,154.3	$ 6,059.8
Europe/Africa	**3,290.9**	3,316.1	2,925.8
Canada	**587.4**	618.2	600.9
Pacific	**980.3**	925.0	837.1
Latin America	**412.0**	335.5	243.9
Total assets	**$11,681.2**	$11,349.1	$10,667.5

Property and equipment

(In millions of dollars)	December 31, 1992	1991
Land	$ 2,440.0	$ 2,375.8
Buildings and improvements on owned land	4,906.0	4,774.3
Buildings and improvements on leased land	3,423.7	3,293.2
Equipment, signs and seating	1,467.2	1,516.4
Other	421.1	408.3
	12,658.0	12,368.0
Accumulated depreciation and amortization	(3,060.6)	(2,809.5)
Net property and equipment	$ 9,597.4	$ 9,558.5

Depreciation and amortization were: 1992—$492.9 million; 1991—$456.9 million; 1990—$443.9 million. Contractual obligations for the acquisition and construction of property at December 31, 1992, amounted to $180.8 million.

Debt financing

Line of credit agreements

The Company has a long-term line of credit agreement for $700.0 million, which remained unborrowed at December 31, 1992, and which continues indefinitely unless terminated by the participating banks upon advance notice of at least 18 months. The Company decreased this line by $300.0 million from December 31, 1991. Each borrowing under the agreement bears interest at one of several specified floating rates, to be selected by the Company at the time of borrowing. The agreement provides for fees of .15 of 1% per annum on the unused portion of the commitment. At December 31, 1992, certain subsidiaries outside of the U.S. had unused lines of credit totaling $846.9 million; these were principally short-term and denominated in various currencies at local market rates of interest.

Exchange agreements

The Company has entered into agreements for the exchange of various currencies. Certain of these agreements also provide for the periodic exchange of interest payments. These agreements, as well as additional interest-rate exchange agreements, expire through 2002 and provide for an effective right of offset; therefore, the related receivable and liability are offset in the financial statements. The counterparties to these exchange agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate.

At December 31, 1992, the Company also had short-term forward foreign exchange contracts outstanding with a U.S. Dollar equivalent of $133.1 million in various currencies, primarily the French Franc.

Aggregate maturities

Included in the 1994 maturities are $700.0 million of notes maturing within one year, as 1994 is the earliest time at which the banks can terminate the line of credit agreement, which supports the classification in Long-term debt. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. During 1992, $191.0 million was retired prior to maturity.

Guarantees

Included in Long-term debt at December 31, 1992, was $181.9 million of 7.67% ESOP Notes, Series A (Notes), and $93.9 million of 7.30% ESOP Notes, Series B (Notes), issued by the Leveraged Employee Stock Ownership Plan (LESOP), with payments through 2004 and 2006, respectively, which are guaranteed by the Company. The Company has agreed to repurchase the Notes upon the occurrence of certain events.

The Company also has guaranteed certain foreign affiliate loans of $164.2 million at December 31, 1992. The Company also was a general partner in 42 domestic partnerships with total assets of $155.0 million and total liabilities of $87.7 million at December 31, 1992.

Fair values

The carrying amounts for Notes payable and short-term forward foreign exchange contracts approximated fair value at December 31, 1992. The fair value of the remaining debt obligations (excluding capital leases), including the net effects of currency and interest-rate exchange agreements, was estimated using quoted market prices, various pricing models or discounted cash flow analyses. At December 31, 1992, the fair value of these obligations, which were primarily used to finance property and equipment, was $3.5 billion compared to a carrying value of $3.3 billion. The Company currently has no plans to retire any of these obligations prior to maturity, with the exception of $200.0 million of 8⅞% Debentures which were redeemed on January 21, 1993; a related loss of $16.0 million was recorded in 1992 when the redemption notice was given.

The Company believes that the fair value of Total assets is higher than their carrying value.

Debt obligations

The Company has incurred debt obligations principally through various public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. The following table summarizes these debt obligations:

(In millions of U.S. Dollars)	*Maturity dates*	*Interest rates (1) December 31* 1992	1991	*Amounts outstanding December 31* 1992	1991	*Aggregate maturities by currency for 1992 balances* 1993	1994	1995	1996	1997	Thereafter
Fixed—original issue		**8.9**	9.0	**$2,002.8**	$2,054.3						
Fixed—converted via exchange agreements (2)		**6.9**	7.9	**(1,174.7)**	(677.3)						
Floating		**4.0**	5.5	**214.6**	381.4						
Total U.S. Dollars	1993-2014			**1,042.7**	1,758.4	$272.4	$ 583.2	$ 52.2	$(35.6)	$(16.1)	$186.6
Fixed		**10.8**	10.8	**489.6**	687.0						
Floating		**7.8**	10.9	**275.3**	177.2						
Total Pounds Sterling	1993-2002			**764.9**	864.2	165.7	83.5	30.3	145.2	15.1	325.1
Fixed		**7.4**	7.5	**366.9**	389.4						
Floating		**11.5**	9.6	**19.3**	20.6						
Total Deutsche Marks	1993-1998			**386.2**	410.0	20.0	205.8	91.5	18.9	49.8	.2
Fixed		**9.9**	9.6	**293.2**	323.4						
Floating		**10.1**	9.6	**165.6**	122.5						
Total French Francs	1993-2002			**458.8**	445.9	27.5	136.0	53.7	54.4	55.7	131.5
Fixed		**12.9**	12.4	**155.7**	200.3						
Floating		**6.2**	8.5	**64.3**	52.3						
Total Australian Dollars	1993-2000			**220.0**	252.6	27.6	70.5	1.3	58.2	1.1	61.3
Fixed		**11.4**	11.0	**175.7**	205.1						
Floating		**7.4**	8.5	**56.7**	50.7						
Total Canadian Dollars	1993-2021			**232.4**	255.8	4.4	79.2	68.3	78.8	.3	1.4
Fixed		**5.8**	6.1	**120.2**	100.2						
Total Japanese Yen	1997-2002			**120.2**	100.2					80.1	40.1
Fixed		**8.6**	9.3	**361.5**	264.9						
Floating		**12.3**	10.4	**154.3**	172.8						
Total other currencies	1993-2001			**515.8**	437.7	162.8	130.6	62.4	22.2	9.3	128.5
Debt obligations including the net effects of currency and interest-rate exchange agreements				**3,741.0**	4,524.8	680.4	1,288.8	359.7	342.1	195.3	874.7
Net asset positions of currency exchange agreements (included in Miscellaneous other assets)				**115.8**	90.0		38.3	6.1	12.8	1.1	57.5
Total debt obligations				**$3,856.8**	$4,614.8	$680.4	$1,327.1	$365.8	$354.9	$196.4	$932.2

(1) Weighted average effective rate, computed on a semi-annual basis.

(2) A portion of U.S. Dollar fixed-rate debt has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements as described on the previous page. The rates shown reflected the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflected the gross effects of these and other exchange agreements.

Leasing arrangements

At December 31, 1992, the Company was lessee at 2,105 restaurant locations under ground leases (the Company leases land and constructs and owns buildings) and at 2,151 locations under improved leases (lessor owns land and buildings). Land and building lease terms are generally for 20 to 25 years and, in many cases, provide for rent escalations and one or more five-year renewal options with certain leases providing purchase options. The Company is generally obligated for the related occupancy costs which include property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under operating leases with initial terms of one year or more after December 31, 1992, are:

(In millions of dollars)	Restaurant	Other	Total
1993	$ 246.5	$ 35.0	$ 281.5
1994	241.7	33.4	275.1
1995	229.1	29.6	258.7
1996	218.7	26.1	244.8
1997	216.8	24.2	241.0
Thereafter	2,073.6	166.6	2,240.2
Total minimum payments	$3,226.4	$314.9	$3,541.3

Rent expense was: 1992—$320.2 million; 1991—$283.6 million; 1990—$256.8 million. Included in these amounts were percentage rents based on sales by the related restaurants in excess of minimum rents stipulated in certain lease agreements: 1992—$26.1 million; 1991—$26.3 million; 1990—$27.3 million.

Franchise arrangements

Franchise arrangements, with franchisees who operate in various geographic locations, generally provide for initial fees and continuing payments to the Company based upon a percent of sales, with minimum rent payments. Among other things, franchisees are provided the use of restaurant facilities, generally for a period of 20 years. They are required to pay related occupancy costs which include property taxes, insurance, maintenance and a refundable, noninterest-bearing security deposit. On a limited basis, the Company receives notes from franchisees. Generally the notes are secured by interests in restaurant equipment and franchises.

(In millions of dollars)	**1992**	1991	1990
Minimum rents			
Owned sites	**$ 538.7**	$ 494.5	$ 439.8
Leased sites	**353.3**	303.7	250.9
	892.0	798.2	690.7
Percentage fees	**1,120.6**	970.4	914.0
Initial fees	**18.2**	17.9	16.0
Revenues from franchised restaurants	**$2,030.8**	$1,786.5	$1,620.7

Future minimum payments based on minimum rents specified under franchise arrangements after December 31, 1992, are:

(In millions of dollars)	Owned sites	Leased sites	Total
1993	$ 584.4	$ 383.5	$ 967.9
1994	574.8	377.6	952.4
1995	564.4	361.0	925.4
1996	553.3	347.4	900.7
1997	541.8	335.7	877.5
Thereafter	5,155.5	3,095.7	8,251.2
Total minimum payments	$7,974.2	$4,900.9	$12,875.1

At December 31, 1992, Net property and equipment under franchise arrangements was $5.5 billion (including land of $1.7 billion), after deducting accumulated depreciation and amortization of $1.6 billion.

Profit sharing program

The Company has a program for U.S. employees which includes profit sharing, 401(k) (McDESOP), and leveraged employee stock ownership features. McDESOP allows employees to invest in McDonald's common stock by making contributions which are partially matched by the Company. Assets of the profit sharing plan can be invested in McDonald's common stock, or among several other alternatives. Certain subsidiaries outside of the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total U.S. program costs were: 1992—$38.8 million; 1991—$46.4 million; 1990—$50.4 million. Total plan costs outside of the U.S. were: 1992—$14.0 million; 1991—$9.8 million; 1990—$10.9 million. The Company does not provide any other postretirement benefits.

Stock options

In 1992, shareholders approved the McDonald's 1992 Stock Ownership Incentive Plan, under which 18.0 million shares of common stock are reserved for issuance. At December 31, 1992, no shares were issued under the plan. Under the 1975 Stock Ownership Option Plan, options to purchase common stock are granted at prices

not less than fair market value of the stock on date of grant. Substantially all of these options become exercisable in four equal biennial installments, commencing one year from date of grant, and expire ten years from date of grant. At December 31, 1992, 26.2 million shares of common stock were reserved for issuance under this plan.

(In millions, except per common share data)	**1992**	1991	1990
Options outstanding at January 1	**23.7**	21.6	19.7
Options granted	**5.8**	5.5	4.9
Options exercised	**(3.8)**	(2.6)	(1.9)
Options forfeited	**(.6)**	(.8)	(1.1)
Options outstanding at December 31	**25.1**	23.7	21.6
Options exercisable at December 31	**7.7**	7.8	7.0
Common shares reserved for future grants at December 31	**19.1**	6.3	10.9
Option prices per common share			
Exercised during the year	**\$9 to \$45**	\$6 to \$34	\$5 to \$29
Outstanding at year-end	**\$9 to \$48**	\$9 to \$34	\$6 to \$34

Capital stock

Per common share information

Income used in the computation of per common share information was reduced by preferred stock cash dividends (net of tax benefits in 1992) and divided by the weighted average shares of common stock outstanding during each year: 1992—363.2 million; 1991—358.1 million; 1990—359.0 million. The effect of potentially dilutive securities was not material.

Preferred stock

In December 1992, the Company issued $500.0 million of Series E 7.72% Cumulative Preferred Stock; 10,000 preferred shares are equivalent to 20.0 million depositary shares having a liquidation preference of $25.00 per depositary share. Each preferred share is entitled to one vote under certain circumstances, and is redeemable at the option of the Company beginning on December 3, 1997, at its liquidation preference plus accrued and unpaid dividends.

In September 1989 and April 1991, the Company sold $200.0 million of Series B and $100.0 million of Series C ESOP Convertible Preferred Stock, respectively, to the LESOP. The LESOP financed the purchase by issuing Notes which are guaranteed by the Company and are included in Long-term debt, with an offsetting reduction in Shareholders' equity. Each preferred share has a liquidation preference of $28.75 and $33.125, respectively, and is convertible into a minimum of .7692 and .8 common share (conversion rate), respectively. Upon termination, employees are guaranteed a minimum value payable in common shares, equal to the greater of the conversion rate; the fair market value of their preferred shares; or the liquidation preference plus accrued dividends, not to exceed one common share. Each preferred share is entitled to one vote and is redeemable at the option of the Company three years after issuance and, under certain circumstances, is redeemable prior to that date. In 1992, 4.1 million shares of Series B stock were converted into 3.2 million common shares.

Common equity put options

In December 1992, the Company sold 2.0 million Common equity put options which are exercisable in April 1993 at an average price of $46.98 per share. The exercise price of $94.0 million was classified in Common equity put options and the related offset was recorded in Common stock in treasury, net of premiums received, at December 31, 1992.

Shareholder rights plan

In December 1988, the Company declared a dividend of one Preferred Share Purchase Right (Right) on each outstanding share of common stock. Under certain conditions, each Right may be exercised to purchase one two-hundredths of a share of Series A Junior Participating Preferred Stock (the economic equivalent of one common share) at an exercise price of $125.00 (which may be adjusted under certain circumstances), and is transferable apart from the common stock ten days following a public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding common shares, or ten business days following the commencement or announcement of an intention to make a tender or exchange offer, resulting in beneficial ownership by a person or group of 20% or more of the outstanding common shares.

If a person or group acquires 20% or more of the outstanding common shares, or if the Company is acquired in a merger or other business combination transaction, each Right will entitle the holder, other than such person or group, to purchase at the then current exercise price, stock of the Company or the acquiring company having a market value of twice the exercise price.

Each Right is nonvoting and expires on December 28, 1998, unless redeemed by the Company, at a price of $.005, at any time prior to the public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding common shares. At December 31, 1992, 2.1 million shares of the Series A Junior Participating Preferred Stock were reserved for issuance under this Plan.

Quarterly results (unaudited)

(In millions of dollars, except per common share data) Quarters ended	December 31 1992	1991	September 30 1992	1991	June 30 1992	1991	March 31 1992	1991
Revenues								
Sales by Company-operated restaurants	**$1,294.9**	$1,261.7	**$1,366.9**	$1,262.4	**$1,273.6**	$1,227.7	**$1,167.1**	$1,156.7
Revenues from franchised restaurants	**533.5**	468.1	**545.6**	474.2	**500.5**	443.1	**451.2**	401.1
Total revenues	**1,828.4**	1,729.8	**1,912.5**	1,736.6	**1,774.1**	1,670.8	**1,618.3**	1,557.8
Operating costs and expenses								
Company-operated restaurants	**1,044.4**	1,034.2	**1,092.0**	1,015.1	**1,031.6**	1,006.7	**958.5**	973.1
Franchised restaurants	**90.1**	81.3	**90.4**	78.0	**85.1**	74.4	**83.0**	72.8
General, administrative and selling expenses	**239.6**	208.8	**217.1**	203.2	**209.4**	198.4	**194.5**	184.3
Other operating (income) expense—net	**(1.4)**	(4.7)	**(21.7)**	(34.7)	**(30.0)**	(49.8)	**(10.9)**	(24.6)
Total operating costs and expenses	**1,372.7**	1,319.6	**1,377.8**	1,261.6	**1,296.1**	1,229.7	**1,225.1**	1,205.6
Operating income	**455.7**	410.2	**534.7**	475.0	**478.0**	441.1	**393.2**	352.2
Interest expense	**86.4**	98.7	**97.0**	94.4	**93.0**	96.1	**97.2**	102.2
Nonoperating income (expense)—net	**(25.0)**	(8.6)	**(.8)**	9.0	**(1.2)**	6.5	**(12.9)**	5.4
Income before provision for income taxes	**344.3**	302.9	**436.9**	389.6	**383.8**	351.5	**283.1**	255.4
Provision for income taxes	**116.4**	102.5	**147.7**	130.9	**129.7**	119.5	**95.7**	86.9
Net income	**$ 227.9**	$ 200.4	**$ 289.2**	$ 258.7	**$ 254.1**	$ 232.0	**$ 187.4**	$ 168.5
Net income per common share	**$ .61**	$ .54	**$ .79**	$ .71	**$ .69**	$ .63	**$ .51**	$ .46

Inquiries

Shareholders

Inquiries regarding reinvestment and payment of dividends, consolidation of accounts, address corrections, changes of registration, stock certificate holdings and McDonald's System Stock Purchase Plan:

First Chicago Trust Company of New York
U.S. and Canada 1-800-Mcl-STCK (1-800-621-7825)
Other countries 1-212-587-6475 (Call collect)

Individual investors
1-708-575-7428

Stockbrokers
1-708-575-5137

Investor newsline
1-708-575-6543

Customers and general public
1-708-575-6198

Financial media relations
1-708-575-6150

U.S. franchising
1-708-575-6196

International franchising
1-708-575-6112

Nutrition information center
1-708-575-FOOD

Key information

Registrar; stock transfer, dividend disbursing and reinvestment agent
McDonald's Shareholder Services
First Chicago Trust Company of New York
P. O. Box 3591, Church Street Station
New York, NY 10008-3591

Home office
McDonald's Corporation
McDonald's Plaza
Oak Brook, IL 60521
1-708-575-3000

Annual shareholders' meeting
May 28, 1993
9:00-11:00 A. M. (CDST)
McDonald's Office Campus
Oak Brook, IL

Mailing procedures
One annual report is mailed to shareholders with the same last name residing in the same household. Shareholders may request additional copies by calling 1-800-Mcl-STCK.

DIRECTORS AND OFFICERS

Directors

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Consultant

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Royal LePage Limited

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Chairman, Sonnenschein Nath & Rosenthal

Andrew J. McKenna
Chairman, President and Chief Executive Officer, Schwarz Paper Company

Terry Savage
Financial advisor, syndicated personal finance columnist, journalist and author

Ballard F. Smith
Chairman, Premier Food Services, Inc.;
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Chairman, President and Chief Executive Officer, Stone Container Corporation

Robert N. Thurston
Business Consultant

B. Blair Vedder, Jr.
Business Consultant

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Michael R. Quinlan,
Chairman
Edward H. Rensi
Paul D. Schrage
Fred L. Turner,
Senior Chairman

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Honorary Director

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(Appointed by the Board for a one-year term)
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Burton D. Cohen
Thomas W. Glasgow, Jr.
Gregory J. Ryan

Ronald McDonald Children's Charities
Kenneth L. Barun
President, CEO and Executive Director

Officers

Top management team

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Senior Vice President, Zone Manager

James R. Cantalupo,
President and Chief Executive Officer – International

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Zone Vice President

Winston B. Christiansen
Senior Vice President

Burton D. Cohen
Senior Vice President

Michael L. Conley
Senior Vice President, Controller

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Executive Vice President

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Senior Vice President, Zone Manager

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Executive Vice President

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Noel Kaplan
Senior Vice President, International Relationship Partner

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Zone Vice President

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Zone Vice President

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Chairman, Chief Executive Officer

Edward H. Rensi
President and Chief Executive Officer – U.S.A.

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Senior Vice President, Chief Purchasing Officer

W. Robert Sanders
Senior Vice President, Zone Manager

Paul D. Schrage
Senior Executive Vice President, Chief Marketing Officer

James A. Skinner
Senior Vice President, International Relationship Partner

Richard G. Starmann
Senior Vice President

Stanley R. Stein
Senior Vice President

Fred L. Turner
Senior Chairman

Delbert H. Wilson, Jr.
Senior Vice President, Zone Manager

S. Bruce Wunner
Senior Vice President, International Relationship Partner

Shelby Yastrow
Senior Vice President, General Counsel, Secretary

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Leon B. Dickey
Pat O. Donahue
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Kevin E. Dunn
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Paul M. Facella
James N. Flaum
Henry E. Gonzalez, Jr.
William D. Hockett
Patricia Isaacs
Patrick W. Kahler, *Hawaii*
Glenn K. Kikuchi
Ronald L. Lessnau
Ted J. Lyon
William C. Marble, Jr.
David S. Natysin
Arthur A. Nelson, III
Kevin M. Reid
Michael J. Roberts
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Charles D. Rowe
Eduardo Sanchez
Bernard L. Schaefer, Jr.
Jeffrey R. Schwartz
Sandra F. Thomas
Robert T. Weissmueller
Thomas M. Whaley
Stephen J. Zdunek
Larry B. Zimmerman

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Ronald W. Miessler
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James T. Rand
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George T. Rummel
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G. Lowell Dixon
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Christopher Pieszko
Michael D. Richard
Edward J. Roche
Gloria Santona
Stuart L. Silver
Michael J. Sise
Eugene J. Stachowiak
Michael P. Walsh
Herbert D. Williams
Gene Wong

International Management

**Identifies managing director, country head or joint-venture partner*

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George A. Cohon
Roy C. Ellis
Kenneth M. Fong
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Harold W. Gregory
John R. Hadfield
Robert A. H. Hissink
George A. Jackson
William G. A. Johnson
Sam Joseph
Redmond J. Langan
Ronald L. Marcoux
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Arnold R. Nelson
Marc Ouellette
Jack W. Pettitt
Gary Reinblatt
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Marc A. Winer

Latin America

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Woods W. Staton*

Brazil
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Gerson Ferrari
Marcel Fleischmann
Peter B. Rodenbeck*
Gregory J. Ryan*

Chile
Jay L. Ewald*

Mexico
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Juan Carlos Fernandez*
Jorge Camino Gutierrez*
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Uruguay
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Carmel T. Flatley
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Terence D. Haynes
Marcus P. Hewson
George A. Mackay
Sidney T. Nicholson
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Peter W. Richards
Vic J. Streeter
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Alain A. Sebah

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Michael W. Gerling
Hans Griebler
Adrian Hendriks
Rolf E. Kreiner
Herman Liades
Joseph Paxian
Gerd Raupeter*
Eva-Maria Sachse

Hungary
Endre Fazekas
Timothy M. Tighe*

Italy
Louis W. Mele*

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Stephen F. Copeland
Robert P. Franke*
Kathleen M. Henry
James A. Listak
Christopher N. Wormald

McDonald's Development Co. – Central Europe
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Helmut J. Hecher

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Hendrik Draijer
Bernhard Durlacher
Reinier Hubertus
Emmanuel Savelberg
Jan Sybesma*

Norway
Theo Holm*

Poland
Timothy J. Fenton*

Russia
Marc A. Winer*

Spain
Philippe C. Walch*

Switzerland
Urs Hammer*

Turkey
Fuat Emon
Dinc Kizildemir*
Ali N. Vardar*

Yugoslavia
Ljubodrag Jakic*

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Anatolij Cork
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Andrew V. Hipsley
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Julie A. Owen
Peter D. Ritchie*

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Tim Lai*
Louis Lau

Hong Kong
Daniel Y. C. Ng*

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Takashi Aramoto
John Asabura
Tsutomu Fujiki
Den Fujita*
Kann Fujita
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Yoshinori Iseda
Haruo Ito
Yasusuke Matsumoto
Shinzo Saga
Hajime Saiga
Hajime Sekino
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Mutsuhira Toyoda

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Lai S. Meng
Mohamed Shah*
Vincent Tan*

McDonald's China Development Co.
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Christopher G. Fraser
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Andrew Sun*
David T. Sun

Thailand
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McDONALD'S PLAZA
OAK BROOK, ILLINOIS 60521